

**REPORT ON
STATEWIDE FINANCIAL MANAGEMENT
AND COMPLIANCE**

FOR THE QUARTER ENDED MARCH 31, 2003



OFFICE OF THE COMPTROLLER

DEPARTMENT OF ACCOUNTS

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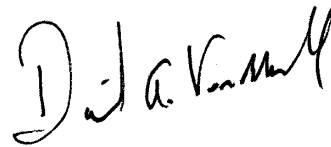
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STATEMENT OF PURPOSE

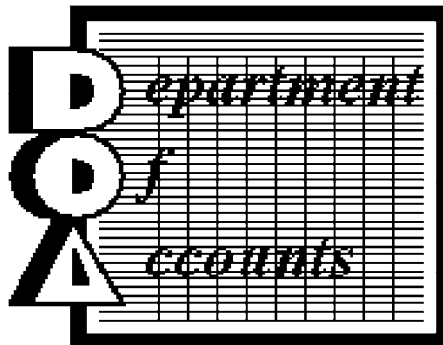
The *Code of Virginia* requires that the Department of Accounts (DOA) monitor and account for all transactions involving public funds. In order to carry out this mandate, the Department uses a variety of measures, including automated controls, statistical analyses, pre-audits and post-audits, staff studies and reviews of reports issued by the Auditor of Public Accounts. When taken as a whole, these measures provide an important source of information on the degree of agency compliance with Commonwealth accounting and financial management policies, internal controls, procedures, regulations, and practices.

The Comptroller's *Report on Statewide Financial Management and Compliance* (the *Quarterly Report*) is a summary of measures used by DOA to monitor transactions involving public funds and report findings to the Governor, his Cabinet, and other senior State officials. The *Quarterly Report* uses exception reporting and summary statistics to highlight key findings and trends. The Department also provides additional detailed financial management statistics for agencies and institutions of higher education.

This *Quarterly Report* includes information for the quarter ended March 31, 2003. Some information in the report is for the quarter ended December 31, 2002, which is the most current data available. Annual reviews of payroll and information returns reporting, for the calendar year ended December 31, 2002, are also included.



David A. Von Moll, CPA, CGFM
Comptroller



SPECIAL REPORT

2002 Information Returns Reporting

The federal government requires State and local governments and their subdivisions to report certain payments to the Internal Revenue Service (IRS) at calendar year-end. Generally, payments made for \$600 or more during a calendar year to individuals, sole proprietors, medical and legal corporations, partnerships, trusts, and estates are considered reportable.

Studies show that information returns increase tax collections by increasing the likelihood that taxable income will be properly reported.

States have special information returns reporting requirements unique to their governmental functions. These include

reporting payments for state unemployment compensation, taxable grants, reforestation payments, state tax refunds, and lottery winnings.

In March 2003, a Statewide Information Returns compliance survey was conducted for the 2002 tax year. Based on the survey, 128 tax reporting entities (representing 249 agencies and institutions) filed 3.4 million information returns totaling \$4.1 billion. Four reporting entities did not file information returns for 2002. The Commonwealth filed 99.8 percent of the information returns with the IRS using electronic or magnetic media.

Information Returns

Filed for Calendar Year 2002

| <u>Number of Information Returns Filed</u> | <u>Number of Tax Reporting Entities</u> |
|--|---|
| No Returns | 4 |
| 1 to 50 Returns | 66 |
| 51 to 250 Returns | 26 |
| Over 250 Returns | <u>32</u> |
| Total Reporting Entities | <u>128</u> |

The agencies and institutions of the Commonwealth filed the following types of information returns for the tax year ended December 31, 2002. The 10 percent growth in the 1099-G is primarily due to an increase in the number of persons receiving state tax refunds. Since the IRS has not fully implemented the reporting requirements of the 1098-T, the dollar amount data is reported as not applicable (NA). It is important to note that the number of qualified tuition payments increased by 138%, from 2,107 in 2001 to 5,013 in 2002.

2002 Information Returns Reporting Results
By Major Filing Category

| Form Type | Dollars Reported | Number of Payees | Paper Media | Magnetic Media | Electronic Media | % Change in No. of Filings from 2001 |
|--|------------------------|------------------|--------------|------------------------|------------------|--------------------------------------|
| 1042-S, Foreign Persons | \$ 17,514,190 | 2,483 | 319 | 689 | 1,475 | 0.8% |
| 1099-G, Govt. Payments | 2,204,662,691 | 2,792,095 | 18 | 2,791,096 ¹ | 981 | 10.0% |
| 1099-Q, Qualified Tuition Program ² | 21,920,893 | 5,013 | 0 | 0 | 5,013 | NA |
| 1099-INT, Interest | 6,043,498 | 57,522 | 185 | 56,347 | 990 | -0.5% |
| 1099-MISC, Misc Income ³ | 369,306,659 | 21,632 | 3,482 | 7,266 | 10,884 | 2.4% |
| 1099-R, Retirement | 1,427,374,356 | 111,729 | 100 | 0 | 111,629 | -6.7% |
| 1099-S, Real Estate Trans. | 70,985,506 | 3,123 | 0 | 0 | 3,123 | 8.4% |
| W2-G, Lottery Winnings | 28,661,399 | 13,365 | 0 | 13,365 | 0 | -0.5% |
| 1098-E, Student Loan Interest | 80,826 | 1,074 | 0 | 267 | 807 | -3.2% |
| 1098-T, Tuition Payments | NA | 440,645 | 2,119 | 72,420 | 366,106 | 2.2% |
| Total | \$4,146,550,018 | 3,448,681 | 6,223 | 2,941,450 | 501,008 | 8.1% |

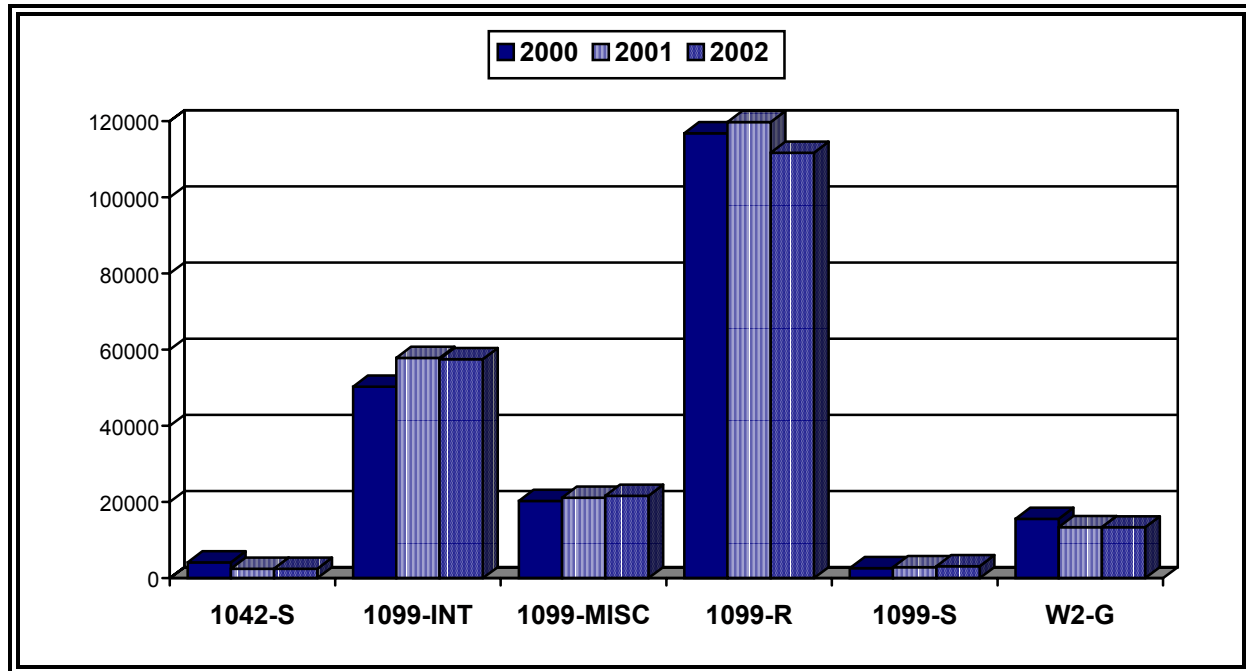
¹ For Calendar Year 2001, 2,357,572 1099-G, Govt. Payments filed through Magnetic Media were incorrectly reported as filed through Electronic Media.

² Qualified Tuition Program payments were reported as 1099-G in 2001.

³ Does not include Medicaid payments to third party providers made by the DMAS fiscal agent.

Following is a comparison of the number of returns filed in the past three years in various categories.

Number of Information Returns Filed
For Calendar Years 2000 - 2002



NOTE: This chart does not include comparison information for forms 1099-G, 1098-E and 1098-T.

Discrepancy Notices

During 2002, eight reporting entities received IRS CP-2100 notices, or other correspondence, related to information returns filed for the previous tax years. This is a 68 percent reduction from 2001. The majority of these notices stated that the agencies had filed information returns using an incorrect taxpayer identification number or a taxpayer identification number that did not match a taxpayer record in either the IRS or Social Security Administration's databases. To avoid penalties for erroneous filings, agencies were required to research these discrepancies and respond to the IRS within 30 days from the date that the CP-2100 notice was received. All agencies that received CP-2100 notices complied and responded accordingly.

In 2002, nine state agencies and institutions received approval from the IRS to participate in the Combined Federal/State Filing Program. Through this program the IRS forwards information returns filed magnetically or electronically to participating states.

The chart below lists the reporting entities that filed more than 500 information returns for calendar year 2002.

| |
|---|
| <p align="center">Reporting Entities Filing More Than 500 Information Returns for 2002</p> |
|---|

| <u>Reporting Entity</u> | <u>Number of Agencies</u> | <u>Number of Returns*</u> | <u>Dollars Reported*</u> | <u>Automated System</u> |
|--|-------------------------------|-------------------------------|------------------------------|-------------------------|
| Department of Taxation | 1 | 2,612,698 | \$1,286,390,185 | Access & STARS |
| Virginia Employment Commission | 1 | 233,984 | 924,965,799 | AMS |
| Virginia Community College System | 23 | 195,608 | 52,307 | FRS |
| Virginia Retirement System | 1 | 111,567 | 1,434,416,536 | Agy-based |
| George Mason University | 1 | 40,179 | 8,965,190 | SCT/Banner |
| University of Virginia | 3 | 37,961 | 35,626,341 | Agy-based |
| Virginia Polytechnic Institute & State University | 2 | 34,438 | 8,966,778 | SCT/Banner |
| Virginia Commonwealth University | 1 | 33,428 | 12,910,522 | SCT SIS/FRS |
| Old Dominion University | 1 | 27,982 | 4,582,650 | SCT/Banner |
| James Madison University | 1 | 20,999 | 4,759,526 | PeopleSoft/Winfiler |
| State Lottery Department | 1 | 14,453 | 45,792,404 | J. D. Edwards |
| Radford University | 1 | 12,308 | 1,523,773 | IFAS |
| The College of William and Mary in Virginia | 2 | 10,760 | 3,575,169 | SCTIA/FRS |
| Norfolk State University | 1 | 8,692 | 2,242,953 | IFAS |
| Christopher Newport University | 1 | 7,148 | 436,866 | Winfiler |
| Virginia State University | 2 | 7,013 | 3,749,557 | SCT SIS/FRS |
| Mary Washington College | 2 | 6,505 | 23,406,973 | IFAS |
| Longwood University | 1 | 5,503 | 1,479,369 | FRS |
| Virginia College Savings Plan | 1 | 5,016 | 21,962,748 | AMS |
| Department of Transportation | 1 | 4,731 | 132,382,154 | Agy-based |
| Supreme Court | 9 | 2,710 | 65,863,919 | Oracle/IDSS |
| Richard Bland College | 1 | 2,140 | 33,561 | Agy-based |
| Virginia Military Institute | 1 | 1,906 | 446,171 | Datatel Colleague |
| Department of Rehabilitative Services | 6 | 1,662 | 14,494,859 | Powerhouse |
| Department of the Treasury Division of Unclaimed Property | 1 | 1,131 | 388,210 | Agy-based |
| Department of Forestry | 1 | 1,029 | 1,427,404 | AMS |
| Department of Health | 2 | 862 | 25,738,344 | Agy-based |
| Total | 69 | 3,442,413 | \$4,066,580,268 | |

* The Number of Returns column includes the number of Forms 1098-T filed with the IRS, but the Dollars Reported column does not include associated dollar amounts because dollar reporting was not required for 2002.

SPECIAL REPORT

2002 Year-End Payroll Processing

At the end of calendar year 2002 DOA, working with 220 state agencies and institutions, verified and printed 119,634 W-2s. This was a slight decrease from the number of W-2s printed in 2001.

| | CY 2001 | CY 2002 |
|---|---------|---------|
| W-2s Printed | 123,287 | 119,634 |
| W-2Cs Printed | 103 | 44* |
| Reissued W-2s | 87 | 127 |
| Agencies Making Adjustments | 53 | 65 |
| Employee Records Requiring Year-End Adjustments | 214 | 199 |

* # of W-2C's printed as of the date of this report.

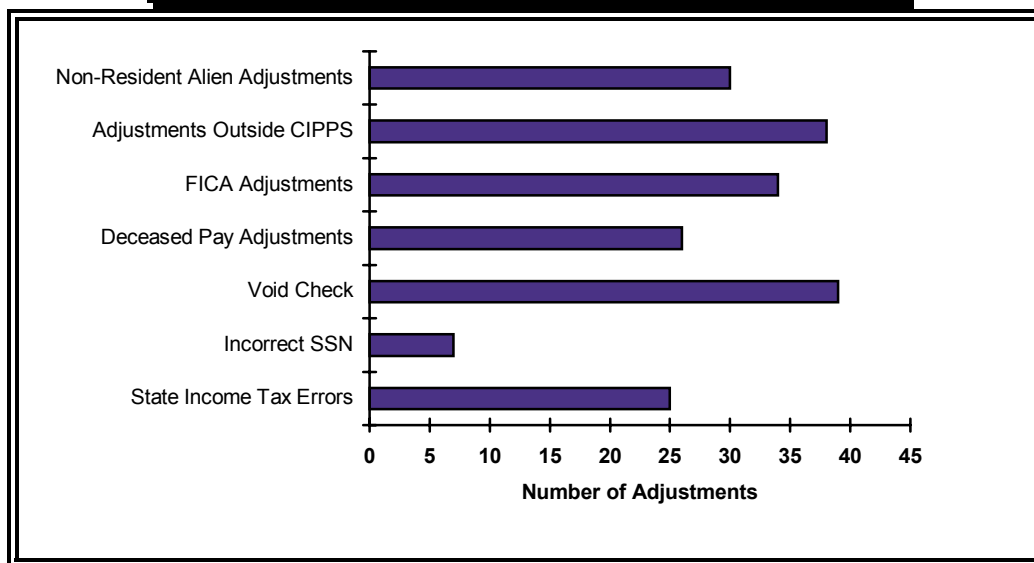
Eliminating reconciliation and certification requirements at the end of the fourth quarter freed staff time for earlier attention to W-2 processing. Agencies ensured that their remote report printers were operational over the New Year's holiday. In addition, many agencies improved the timeliness of payroll updates during the year.

As a result, required processing deadlines continue to be met without difficulty. Submissions of certified year-end reports continue to follow the same trend as last year.

Agencies adjusted 199 employee records. Accounting for void payments was the most common reason for W-2 adjustments. Adjusting non-resident alien W-2s for specific terms in treaties with their countries of origin also constituted a large portion, as did adjustments for pre-tax deductions withheld from non-taxable deceased pay disbursements.

W-2s are printed at DOA and subsequently distributed to a third party vendor for folding and envelope stuffing. Upon return from the vendor, agencies are notified that the W-2s are ready for pickup. All CIPPS W-2s were picked up by January 28 for subsequent delivery to employees.

Reasons for W-2 Adjustments Calendar Year 2002



COMPLIANCE

Auditor of Public Accounts Reports - Executive Branch Agencies

Agency audit reports issued by the Auditor of Public Accounts (APA) may contain findings because of noncompliance with state laws and regulations. Agencies may also have internal control findings considered to be reportable conditions. Reportable conditions involve matters relating to significant deficiencies in the design or operation of internal control that, in the Auditor's judgement, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions of management.

Each agency must provide a written response that includes a Corrective Action Workplan (CAW) to the Department of Planning and Budget, the Department of Accounts, and the agency's Cabinet Secretary when its audit report contains one or more audit findings. Workplans must be submitted within 30 days of receiving the audit report. Commonwealth Accounting Policies and Procedures (CAPP) manual, Topic 10205, *Agency Response to APA Audit*, contains instructions and guidance on preparing the workplan.

Audit Reports – Quarter Ended March 31, 2003

The APA issued 26 separate reports covering 36 agencies, offices, boards, and commissions for the Executive Branch agencies listed on the following table. The last column indicates whether the CAW has been received as of the date of this publication for each agency with audit findings. Note that in some cases, the CAW may not have been received because it is not yet due.

| | # Findings | CAW Received |
|--|------------|--------------|
| Administration | | |
| Department of Human Resources Management | 0 | |
| Department of General Services | 1 | Yes |
| Commerce and Trade | | |
| Virginia Employment Commission | 2 | Yes |
| Department of Business Assistance | 0 | |
| Tobacco Indemnification and Community Revitalization Commission | 0 | |
| The Virginia Removal or Rehabilitation of Derelict Structures Fund | 0 | |

| | # Findings | CAW Received |
|---|------------|--------------|
| Education | | |
| Virginia Commonwealth University | 4 | Yes |
| University of Virginia Medical Center | 1 | Yes |
| College of William and Mary in Virginia | 3 | Yes |
| Southwest Virginia Higher Education Center | 0 | |
| Finance | | |
| Department of Planning and Budget ¹ | 0 | |
| Department of the State Internal Auditor ¹ | 0 | |
| Department of Accounts ¹ | 0 | |
| Department of Treasury ¹ | 1 | Yes |
| Treasury Board ¹ | 0 | |
| Department of Taxation ¹ | 6 | Yes |
| Health and Human Resources | | |
| Virginia Tobacco Settlement Foundation | 0 | |
| Department of Rehabilitative Services ² | 0 | |
| Woodrow Wilson Rehabilitation Center ² | 0 | |
| Department for the Blind and Vision Impaired ² | 0 | |
| Department for the Deaf and Hard of Hearing ² | 0 | |
| Virginia Rehabilitation Center for the Blind and Vision Impaired ² | 0 | |
| Virginia Board for People with Disabilities ² | 0 | |
| Department of Health | 6 | Yes |
| Department of Social Services | 9 | Yes |
| Department of Mental Health, Mental Retardation and Substance Abuse Services | 1 | Yes |
| Natural Resources | | |
| Department of Historic Resources | 0 | |
| Public Safety | | |
| Department of Criminal Justice Services | 1 | Yes |
| Department of Corrections and Virginia Parole Board | 4 | Yes |
| Department of Emergency Management | 1 | Not Yet Due |

| | # Findings | CAW Received |
|---|------------|--------------|
| Technology | | |
| Department of Information Technology | 0 | |
| Innovative Technology Authority and Center for Innovative Technology | 0 | |
| Transportation | | |
| Department of Aviation | 0 | |
| Department of Transportation | 6 | Yes |
| Department of Motor Vehicles | 4 | Yes |
| Virginia Port Authority | 3 | Yes |

¹ The Auditor of Public Accounts issued one report covering these six Finance Secretariat agencies.

² The Auditor of Public Accounts issued one report covering these six agencies serving Virginians with disabilities.

Agency Findings – Quarter Ended March 31, 2003

The following agencies had one or more findings contained in their audit report. Short titles assigned by APA are used to describe the finding, along with a brief summarization of the comments. The audit reports contain the full description of each finding.

Administration

Department of General Services

1. Properly Record and Track Assets on the Fixed Asset Accounting Control System: The Department did not perform an inventory of its fixed assets. In addition, assets that had been sold or surplusd were not removed from the accounting records.

Commerce and Trade

Virginia Employment Commission

1. Correctly Disburse Temporary Extended Unemployment Compensation (TEUC): The federal government, through the U. S. Department of Labor (DOL) created a fully federal funded program to extend unemployment benefits on a temporary basis following September 11, 2001. Due to a computer programming error, the Commission (VEC) overpaid 6,265 legitimate claimants \$2,240,040, an average overpayment of \$357 per claim.

Virginia Employment Commission – continued

2. Accurately Complete Financial Status Reports: VEC did not follow DOL guidelines when it prepared the June 30, 2002 quarterly Financial Status Report 9076-A, "Workforce Investment Statewide Activities." Reported expenses were overstated by \$977,357. Subsequently, the report for the quarter ended September 30, 2002, was prepared correctly.

Education

Virginia Commonwealth University

1. Ensure Proper Stewardship and Control Over Fixed Assets: The University (VCU) did not maintain and safeguard fixed assets in accordance with Institution and Commonwealth policies and procedures. Exceptions included being unable to locate fixed assets, assets without identification tags, errors in computer lists of assets, and assets having incorrect addresses or other description data.
2. Improve Controls Over Cash Collection: Two out of five cash collection points did not consistently follow internal policies requiring next-day deposits of cash receipts.
3. Improve Construction Project Management: VCU did not clearly document the authority and responsibilities of personnel involved in contract administration, project management, and oversight of construction projects.
4. Improve Controls Over Small Purchase Charge Card Program: VCU received certain exemptions from DOA to operate and use the charge cards. VCU can set rules, policies and procedures to best meet its' own requirements. The review found that certain departments did not adequately detect statement errors and incorrect billings and subsequently identify discrepancies.

University of Virginia Medical Center

1. Continue Security Initiative Over Critical Information Systems and Network: *As noted in last year's report*, the Health Systems Computing Services continues its project to enhance the security of the network information systems. Management should continue with the development and implementation of the comprehensive, on going information security program.

College of William and Mary in Virginia

1. Strengthen Enforcing Travel Expense Regulations: The College needs to strengthen its enforcement and review of travel expense reimbursements. A review of travel expenses revealed that several payments for lodging exceeded the allowable per diem rate, another reimbursed an employee for personal items, and others paid meal expenses for individuals other than the traveler without having required documentation.
2. Evaluate Potential Component Units: Recent changes in generally accepted accounting principles affect how the College reports several related affiliated organizations. The College must identify the most appropriate method of reporting each entity. Once the correct method is determined, the College needs to coordinate with the organizations the timing and receipt of their audit reports for inclusion in the College's financial statements.
3. Strengthen Procedures for Recording Agency Commitments: The College needs to improve its method of accumulating and reporting contract commitments, retainage payable, and lease payments and liabilities.

Finance

Department of Treasury

1. Evaluate Remote Access of the Check Writing System: Treasury should reevaluate the vendor's need to perform remote support of the check writing system. The check writing system is a fully implemented system and should not require remote administration for maintenance and other activities.

Department of Taxation

1. Strengthen Controls Over Program Change Procedures: Taxation (TAX) uses three applications and one form to manage the program change control process. There is insufficient information to compare information between the applications and the form to adequately document the change request's progression through the workflow.
2. Approve and Implement Formalized Information Security Policies and Procedures: TAX developed their Information Security Policy in Fall 2000. The Policy specifies how to establish and monitor logical and physical security. To date, TAX has not formally accepted, approved, or implemented the developed Policy.

Department of Taxation – continued

3. Strengthen Operating System Security Policies and Procedures: TAX's Internet Filing Application servers are located at the Department of Information Technology (DIT). DIT also maintains the operating systems on these servers. TAX and DIT have a written agreement that defines DIT's responsibilities. The written agreement does not reflect changes in the levels of service that have occurred over time. In addition, the audit found system users without passwords, unnecessary network services, inappropriate file and directory permissions, and a lack of a standard configuration among the various servers.
4. Update and Improve Revenue Accounting Procedures: TAX has implemented a number of new applications, processes and procedures changing how TAX does business and handles transactions. Revenue accounting has not updated many of the tools and procedures in their area. This has caused revenue accounting to encounter difficulties in tracking and resolving reconciling items.
5. Improve the Data Capture Process for Refund Performance Measurement: Tax does not accurately capture accelerated refund return information it uses to generate its refund performance measurement.
6. Ensure Timely Suspension of ACF2 Accounts: *As noted in prior years,* Tax does not suspend access of terminated employees in a timely manner. The audit found delays in suspensions of three terminated employees' accounts ranging from three days up to four months.

Health and Human Resources

Department of Mental Health, Mental Retardation and Substance Abuse Services

1. Improve Internal Controls Over Payroll: The audit identified several weaknesses related to payroll at several facilities. Three facilities failed to delete CIPPS access timely, one facility did not properly approve salary and wage timesheets, one facility understated its leave liability reported in the annual financial statements, and one facility allowed annual leave hours exceeding Statewide maximums.

Department of Health

1. Improve Reporting and Recording of Leases: Health is not properly accounting for their leases. The audit found 15 out of 20 leases selected were either not recorded or improperly recorded on the Lease Accounting System.

Department of Health – continued

2. Ensure Proper Recording of Capitalizable Assets: Health did not properly record the transfer of \$1,750,024 in assets to the Department of General Services, Division of Purchases and Supply in the Fixed Asset Accounting and Control System (FAACS). Health improperly recorded items as surplus instead of transferred, which indicated that Health still had possession of the assets.
3. Strengthen Operating System Security Policies: Health's Office of Information Management needs to enhance policies and procedures for the operating system and servers. Lack of policies could lead to inappropriate access to critical data and programs.
4. Properly Write Off Bad Debt and Comply With Accounts Receivable Procedures: *As reported in prior audits*, Health is not writing off past due Uncollectible receivables in accordance with state or internal policies and procedures. Local health department districts are not taking proper steps to clear past due debts out of the accounting records. Of \$4.2 million in gross receivables at June 30, 2002, 69 percent was past due and 45 percent was over 90 days past due.
5. Improve Financial Reporting Over Grant Accounting: The audit of Health's Schedule of Expenditures of Federal Awards, schedules and footnote found numerous errors, which resulted in the Department submitting revised schedules and footnote to DOA for the Commonwealth of Virginia Statewide Single Audit.
6. Improve Contract Management and Administration: *As reported in the prior audit*, Health's Office of Purchasing and General Services manages procurement and provides contract management policies and training. The review of selected local health districts and other related program areas at Health identified several instances of internal control weaknesses and noncompliance with policies and procedures.

Department of Social Services

1. Follow EBT Policies and Procedures and Provide Separation of Duties for EBT Users: The Department of Social Services (DSS) contracted with CitiCorp Electronic Financial Services Inc. to develop and maintain an electronic benefits transfer (EBT) system to replace food stamp coupons, as required by the U. S. Department of Agriculture. There is not adequate separation of duty controls for establishing and maintaining the new EBT cards. The same individual with access to the actual cards stored in the vault can issue a personal identification number, create a card account and make changes to the account. Further, there is no review process in place to monitor and determine if there have been any improper or fraudulent transactions.

Department of Social Services – continued

2. Resolve Unidentified Child Support Payments Timely: Frequently, DSS receives child support payments from unidentified sources. As part of its collections process, DSS policy calls for unidentified payments to be resolved within 30 days to reduce delays in payments to custodial parents. All unidentified payments selected for review exceeded the policy guidelines.
3. Comply With the Commonwealth of Virginia (COV) Information Technology Resource Management (ITRM) Standard 2000-01. 1: DSS has not updated its business impact analysis and risk assessment since May and September 1999, respectively. This lack prevents DSS from identifying new and unknown vulnerabilities that could affect critical and sensitive information systems.
4. Improve Usage of the Income Eligibility Verification System: ***As noted in the last audit,*** DSS does not use the Income Eligibility Verification System to determine eligibility for the federal Temporary Assistance for Needy Families (TANF) recipients. Accordingly, the Department is not in compliance with federal requirements.
5. Properly Maintain Capital Assets on the Fixed Asset Accounting Control System: ***As disclosed in prior audit reports,*** DSS does not perform physical inventories. Physical inventories are required by Topic 30500 of the Commonwealth's Accounting Policies and Procedures Manual.
6. Improve Internal Controls For Cash Receipting: ***As noted in the last audit,*** DSS did not follow good internal control practices over revenue processing. Checks are not immediately logged into the newly implemented access database. Unendorsed checks are not properly secured. In addition, receipts were not receipted timely.
7. Improve Internal Controls Over CIPPS Access: DSS did not delete the access capability of three terminated payroll employees until between one and three months after the employees' last day. A lack of internal controls over unauthorized access to the Commonwealth Integrated Payroll/Personnel System (CIPPS) exposes the agency to the potential risk of unauthorized changes to sensitive employee payroll data.
8. Enhance Communication Between Human Resources Department and Payroll Department Regarding Employee Changes: ***As noted in prior reports,*** DSS is not adequately communicating changes in employee status between the Payroll and Human Resources Departments timely or effectively. The current audit revealed instances where employee records were entered in CIPPS but not in the Benefit Eligibility System within the same period. Eight out of twenty records were shown on CIPPS but not on PMIS. These instances resulted in inaccurate health insurance premium payments for ten out of twenty employees tested, payroll overpayments and inconsistent data between systems.

Department of Social Services – continued

9. Improve Use and Maintenance of the TAPERS System: *As disclosed in prior audit reports*, information tested in the Time Activity Project and Expense Reporting System (TAPERS) was not complete or reliable. Test work disclosed the following conditions:

- ◆ terminated employees remained on the TAPERS system;
- ◆ two timesheets for the same pay period, only one approved, stay on the system;
- ◆ some employees are not recording hours in TAPERS at all;
- ◆ employee leave time taken shows no supervisory review, and;
- ◆ leave is shown in TAPERS but there is no record of the person taking leave.

Public Safety

Department of Criminal Justice Services

1. Strengthen Reconciliation Procedures: The Department did not agree transactions recorded in CARS to source documents. As a result, balances in two funds, the Crime Victims Trust Fund and the Criminal Justice Training Fund, were misstated by \$1.6 million at the end of fiscal year 2002.

Department of Corrections and Virginia Parole Board

1. Strengthen Information Security Plan: Corrections' information security program is incomplete and does not meet requirements set by the Department of Technology Planning.
2. Follow Established Inventory Procedures: Corrections staff did not follow established procedures when taking the commissary inventory and the materials and supplies inventory. Inventory was not tagged to avoid duplicate counting, count errors were not adequately documented, obsolete inventory was counted, and independent employees were not always used.
3. Properly Record Accounts Payable: Corrections understated their year end accounts payable by \$66,025. Three vouchers tested were not properly recorded.
4. Ensure Proper Recording and Tracking of Leases: The audit found 2 out of 20 lease payments incorrectly recorded. Also, 3 out of 17 new capital leases were not recorded on FAACS.

Department of Emergency Management

1. **Improve Subrecipient Monitoring:** The Department passes the majority of funds received under the Hazard Mitigation Grant Program through to subrecipients. Monitoring, which would include site visits and final project inspections, was not performed by the Department due to time constraints and insufficient resources.

Transportation

Department of Transportation

1. **Improve Internal Controls Over Assets to Prevent Capital Asset Misstatements:** The Department of Transportation (VDOT) did not fully prepare for the recording and reporting of capital assets under the new governmental reporting model. VDOT did not properly identify and address all issues surrounding the new reporting requirements for capital assets, did not provide guidance to all personnel responsible for maintaining capital assets and did not properly report capital assets.
2. **Properly Track and Record Leases and Lease Payments:** *As reported in the previous audit*, VDOT does not properly track or record its leases and lease payments. The Department's lease commitment disclosure was overstated by \$21 million. In addition, lease payments are not recorded in accordance with Commonwealth accounting policies. Further, the Department does not have procedures in place to ensure personnel properly forward lease documentation to DOA for inclusion in the Lease Accounting System (LAS).
3. **Develop Procedures to Properly Track Contractual Commitments:** VDOT does not have procedures to properly track its contractual commitments. Internal control weaknesses in the recording of contract payments and preparation of the year end commitments disclosure caused a \$255 million adjustment (12%) to contractual commitments totaling approximately \$2 billion. In addition, audit testing disclosed that contract expenses were not always charged to the correct contract, contract values and terms were not always properly recorded in the financial records, and procedures were not in place to track outstanding commitments.
4. **Implement Review Procedures and Record CARS and FMSII Adjustments Timely:** VDOT did not properly record a fiscal year 2002 financial statement adjustment totaling \$11.9 million, thereby overstating expenses and understating cash.

Department of Transportation - continued

5. Develop Adequate Documentation of and a Long-Range Plan for FMSII: FMSII is VDOT's main accounting information system. VDOT does not have adequate documentation of the database and does not have procedures to ensure future system changes are adequately documented. In addition, vendor support of the two software applications, Oracle and PeopleSoft, that run FMSII has been lost.
6. Perform Subrecipient Monitoring of Localities: VDOT receives certain federal grant funds that it passes through to localities. VDOT does not have adequate procedures or methods in place to properly monitor the localities that receive the federal pass through funds.

Department of Motor Vehicles (DMV)

1. Assess Needs and Develop Policy and Procedures Over the Fuels Tax Program: A formal implementation plan did not exist to assess all information technology needs from the new system regarding fuels tax reporting. DMV does not have formal policies and procedures addressing the duties and responsibilities of employees in the Fuels Tax Division. Essential data from taxpayers has not been entered into the Motor Fuels Tracking System. In addition, DMV does not have procedures to review user access of critical information systems.
2. Strengthen Information Systems Security Policies and Procedures: DMV does not have complete written policies and procedures for maintaining security controls on UNIX production servers. Further, DMV does not have adequate controls in place for program changes. Programmers have the capability to change programs and release the changes into production.
3. Properly Record and Track Assets on the Fixed Asset Accounting and Control System: *As reported in the previous audit,* DMV does not record and track fixed assets in accordance with state guidelines. Management did not provide personnel at Customer Service Centers with proper procedures to track and record surplus equipment and disposal of such equipment.
4. Ensure Proper Classification and Reporting of Leases: DMV did not properly classify or record all lease payments onto their accounting system and the state's lease accounting system.

Additional APA Comment: "Motor Vehicles has problems paying current obligations and often cannot comply with the State's prompt payment performance standards.... Cash shortfalls have reached the point where Motor Vehicles must borrow funds from other sources to meet its obligations.... Many of the issues ...are ***part of prior audit reports.***"

Virginia Port Authority

1. Mitigate Possible Conflict of Interest of Capital Projects: *As noted in the previous audit*, the Authority (VPA) awarded sole source project management contracts to the same company that had several on-going capital project contracts. This creates the potential of the vendor supervising and reviewing its own work. In addition, the audit found instances where multiple vendor employees charged hours to a capital project while at the same time charging project management hours for the same project.
2. Strengthen Controls Over Travel Regulations: The Authority does not require itemized receipts for reimbursement of meals and entertainment expenses. In four of five instances reviewed, VPA failed to perform a cost benefit analysis of whether it was cheaper to use the State aircraft or fly commercial or charter an aircraft. Further, VPA reimbursed employees for meal expenses that exceeded the per diem rate. Finally, \$4,318 in permanent travel advances was not recovered from terminated employees.
3. Develop Procedures for Amending Contracts: VPA does not have policies and procedures that address the amending of contracts. Contract amendments can substantially increase the dollar value and/or scope of work of the original contracts. In one instance, amendments increased a contract by \$6 million dollars. VPA executed the amendments without written justification or documented negotiation.



Compliance Monitoring

Exception Registers

The Commonwealth Accounting and Reporting System (CARS) contains the Commonwealth's official accounting records. Therefore, State accounting policy requires that each agency reconcile its internal accounting records to CARS at least monthly and submit the results of the reconciliation via an exception register.

DOA closely monitors exception register status, evaluates exceptions, and posts correcting entries in CARS. Exception registers for December, January, and February were due 1/28/03, 2/25/03, and 3/26/03, respectively.

Exception Registers Late or Outstanding

As of April 17, 2003

| | Dec | Jan | Feb |
|---|------------|------------|------------|
| Department of Game and Inland Fisheries | 4/15/03 | 4/15/03 | - |

KEY: O/S - Exception Register is Outstanding
DATE - The date received by DOA

Disbursement Processing

During the quarter ended March 31, 2003, DOA deleted, at the submitting agency's request, 60 payments that were awaiting disbursement from the vendor payment file. These included duplicate payments, payments with incorrect vendors or addresses, and payments with incorrect amounts. This type of transaction may point to areas where improved agency internal accounting controls should be evaluated.

Thirty-one agencies requested deletes during the quarter. Agencies that requested more than four vendor payment deletes during the quarter are as follows:

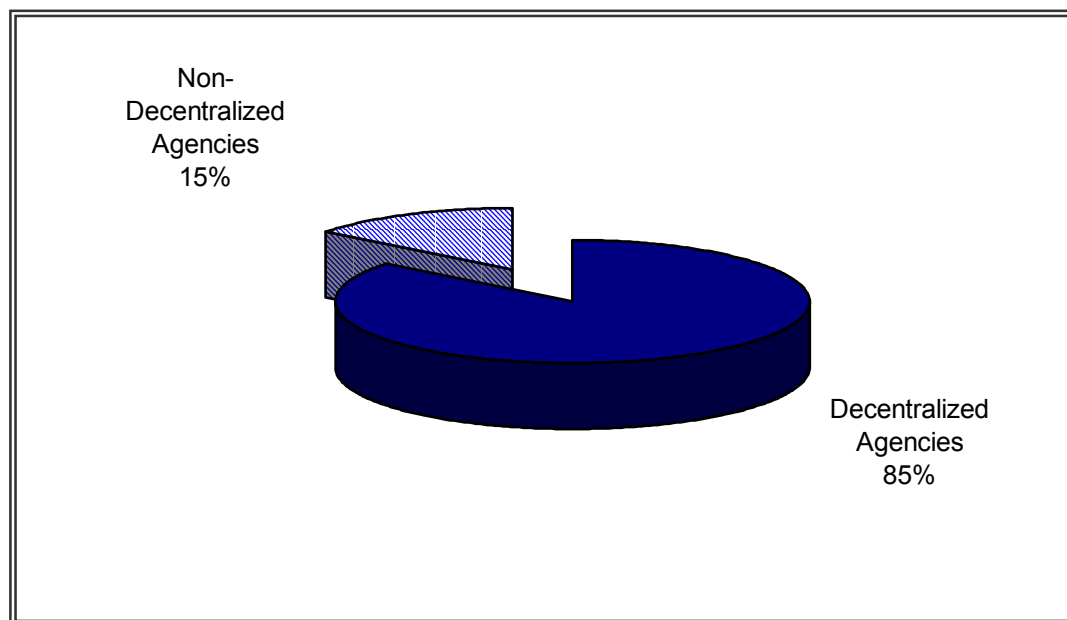
- ◆ Department of Rehabilitative Services
- ◆ Department of Transportation

Paperwork Decentralization

The Commonwealth has decentralized the pre-auditing of most disbursements to individual agencies under a grant of delegated authority from the State Comptroller. Prior to the implementation of the program, over two million document sets (batches) were sent to the central repository each year. This program reduces the flow of documents from these agencies to the central repository in Richmond.

The overall quality of the State pre-audit program is monitored through the use of on-site quality control reviews conducted by DOA staff. Results of these reviews are provided to the agency with corrective action recommendations. The great majority of problems encountered involve documentation inconsistencies, which should be easily corrected. Travel vouchers continue to be the primary source of all problems found.

Vouchers Processed Quarter Ended March 31, 2003



Note: Totals now include vouchers processed by decentralized higher education institutions.

Decentralized Agencies

Compliance reviews were conducted at five decentralized agencies during the quarter. The agencies were evaluated for compliance with State expenditure policies and procedures. Vouchers are selected for review based on a random sample designed to ensure 95 percent confidence in the conclusions.

The Exception Rate is determined by dividing the number of compliance findings by the number of vouchers reviewed. All agencies reviewed during the quarter received ratings of “Good” or better, with Exception Rates lower than 4 percent.

| Compliance Rating Legend | |
|---------------------------------|--------------------------|
| > 10.0% | Unacceptable Performance |
| 7.0% to 9.9% | Minimal Performance |
| 4.0% to 6.9% | Satisfactory Performance |
| 1.0% to 3.9% | Good Performance |
| < 1.0% | Exceptional Performance |

| Decentralized Agency | Vouchers Reviewed | Compliance Findings | Exception Rate | Performance Measurement |
|---|--------------------------|----------------------------|-----------------------|--------------------------------|
| <i>Commerce and Trade</i> | | | | |
| Department of Business Assistance | 216 | 1 | 0.5% | Exceptional |
| <i>Education</i> | | | | |
| University of Virginia/University of Virginia's College at Wise/ Southwest Virginia Higher Education Center* | 619 | 24 | 3.9% | Good |
| <i>Finance</i> | | | | |
| Department of Taxation | 187 | 3 | 1.6% | Good |

* The reviews of the University of Virginia, the University of Virginia's College at Wise, and Southwest Virginia Higher Education Center were combined into one engagement, therefore only one rating is issued.

Note: No reviews were performed during the quarter for agencies that report to the Secretaries of Administration, Health and Human Resources, Natural Resources, Public Safety, Technology, and Transportation.

Non-Decentralized Agencies

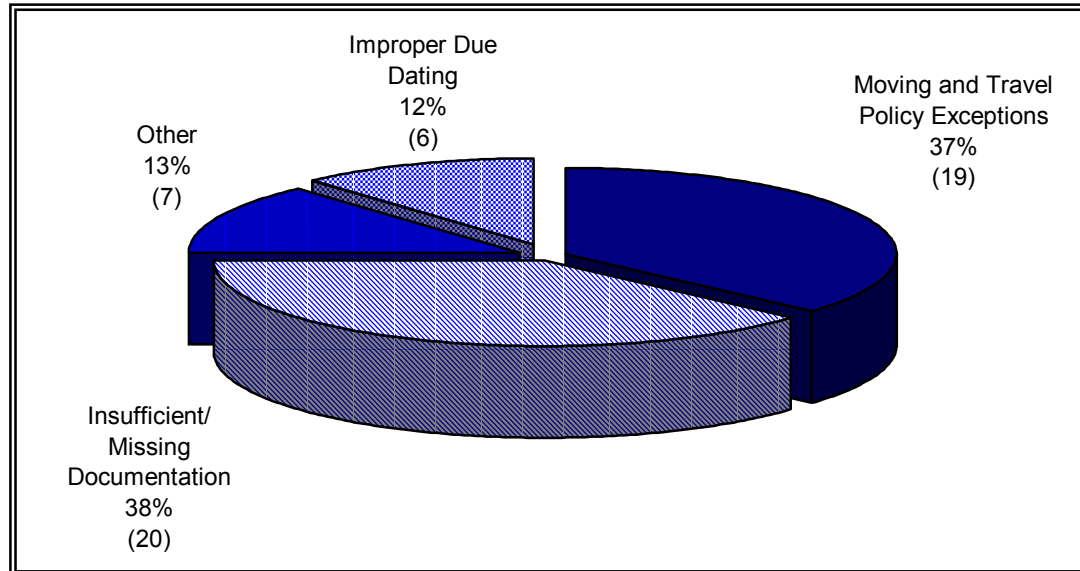
Pre-audit of disbursements is conducted at the Department of Accounts for certain agencies that have not demonstrated the capability to manage a delegated program (i.e., have not met statewide decentralization management standards), agencies for which the cost of delegation is greater than the efficiency benefits to be gained through decentralization, or those few agencies, primarily those comprised of elected

officials and cabinet officers, for whom this additional safeguard is warranted.

During the quarter, DOA reviewed 136 non-decentralized agencies on a rotating schedule. A total of 1,160 non-travel disbursement batches and 212 travel disbursement batches were reviewed, disclosing 52 exceptions that were resolved prior to releasing the transactions for payment.

Disbursement Review and Compliance Findings Non-Decentralized Agencies

Quarter Ended March 31, 2003



Prompt Payment Compliance

The Prompt Payment Act requires that State agencies and institutions pay for goods and services by the required payment due date. The reporting required by the Code of Virginia Section 2.2-4356 is being met by the information presented here. This section details the number and dollar amounts of late payments by secretarial area, institutions

and agencies, and the total amount of interest paid. Agencies and institutions that process 50 or more vendor payments during a quarter are reported as not meeting Prompt Pay requirements if fewer than 95 percent of their payments are processed by the required due date.

Statewide Prompt Payment Performance Statistics

| | <i>Quarter Ended March 31, 2003</i> | | <i>Fiscal Year 2003</i> | |
|---|-------------------------------------|--------------|-------------------------|--------------|
| | Late | Total | Late | Total |
| Number of Payments | 7,753 | 594,539 | 25,353 | 1,805,636 |
| Dollars (in thousands) | \$32,516 | \$1,098,605 | \$149,780 | \$3,269,477 |
| Interest Paid on Late Payments | | | | \$7,307 |
| Current Quarter Percentage of Payments in Compliance | | | | 98.7% |
| Fiscal Year to Date Percentage of Payments in Compliance | | | | 98.6% |



Prompt Payment Performance by Secretarial Area
Quarter Ended March 31, 2003

| Secretarial Area | Payments in Compliance | Dollars in Compliance |
|----------------------------|-------------------------------|------------------------------|
| Administration | 99.7% | 99.8% |
| Commerce and Trade | 98.8% | 99.2% |
| Education* | 98.7% | 96.9% |
| Elected Officials | 93.1% | 86.2% |
| Finance | 99.8% | 99.9% |
| Health and Human Resources | 98.6% | 96.5% |
| Independent Agencies | 98.9% | 97.4% |
| Judicial | 98.9% | 99.3% |
| Legislative | 99.4% | 99.8% |
| Natural Resources | 99.5% | 99.0% |
| Public Safety | 99.1% | 98.1% |
| Technology | 99.6% | 99.9% |
| Transportation* | 98.6% | 95.6% |
| Statewide | 98.7% | 97.0% |

Prompt Payment Performance by Secretarial Area
Fiscal Year 2003

| Secretarial Area | Payments in Compliance | Dollars in Compliance |
|----------------------------|-------------------------------|------------------------------|
| Administration | 99.7% | 99.8% |
| Commerce and Trade | 98.7% | 98.4% |
| Education* | 98.3% | 95.4% |
| Elected Officials | 96.3% | 95.0% |
| Finance | 99.8% | 99.9% |
| Health and Human Resources | 98.6% | 90.5% |
| Independent Agencies | 99.1% | 98.7% |
| Judicial | 99.3% | 99.7% |
| Legislative | 99.1% | 98.2% |
| Natural Resources | 99.3% | 99.0% |
| Public Safety | 99.0% | 98.4% |
| Technology | 99.3% | 99.2% |
| Transportation* | 99.0% | 94.3% |
| Statewide | 98.6% | 95.4% |

* Statistics include those provided independently by Virginia Port Authority, Virginia Polytechnic Institute and State University, University of Virginia, Radford University, James Madison University, Old Dominion University, Virginia Commonwealth University, George Mason University, and the College of William and Mary in Virginia and may include local payments. These agencies and institutions are decentralized for vendor payment processing.

For the quarter ended March 31, 2003, the following agencies and institutions that processed more than 50 vendor payments during the quarter were below the 95 percent prompt payment performance standard.

Prompt Payment Compliance Rate
Agencies Below 95%
Quarter Ended March 31, 2003

| Agency | Late Payments | Total Payments | Payments in Compliance |
|--|--------------------------|---------------------------|---------------------------------------|
| Commerce and Trade | | | |
| Department of Minority Business Enterprise | 4 | 53 | 92.5% |
| Education | | | |
| Gunston Hall Plantation | 11 | 120 | 90.8% |
| Elected Officials | | | |
| Attorney General and Department of Law | 52 | 396 | 86.9% |
| Health and Human Resources | | | |
| Central State Hospital | 41 | 712 | 94.2% |
| Southeastern Virginia Training Center | 40 | 768 | 94.8% |
| Hiram W. Davis Medical Center | 72 | 1,100 | 93.5% |
| Judicial | | | |
| Magistrate System | 5 | 89 | 94.4% |
| Public Safety | | | |
| Department of Corrections, Central Activities | 11 | 202 | 94.6% |

For FY 2003 to date, the following agencies and institutions that processed more than 200 vendor payments during the year were below the 95 percent prompt payment performance standard.

Prompt Payment Compliance Rate
Agencies Below 95%
Fiscal Year 2003 to Date

| Agency | Late Payments | Total Payments | Payments in Compliance |
|--|---------------|----------------|------------------------|
| <i>Education</i> | | | |
| Gunston Hall Plantation | 38 | 373 | 89.8% |
| The Science Museum of Virginia | 148 | 2,584 | 94.3% |
| Virginia School for the Deaf and the Blind at Staunton | 143 | 1,659 | 91.4% |
| <i>Elected Officials</i> | | | |
| Attorney General and Department of Law | 75 | 1,251 | 94.0% |

Prompt Payment Explanations

Explanations for low prompt payment compliance rates for the third quarter and FY 2003 to date were provided by the following agencies. Not all agencies elected to provide written explanations.

Virginia School for the Deaf and the Blind at Staunton had a low compliance rate for the month of October, which pulled the YTD average down. Issues resulting in this were rectified as evidenced by a compliance rate above 95 percent since November.

Gunston Hall Plantation did not meet prompt payment for the third quarter 2003 and year to date 2003 because they have one person to handle all accounting, budgeting and human resource functions for the agency. With the current budget situation, this is not likely to change in the near future. They

are attempting to put prompt pay at the front of the list and will continue to endeavor to meet the state standards and regulations.

The sole fiscal staff person for the ***Department of Minority Business Enterprise*** unexpectedly left the agency on emergency leave during this period. The fiscal person had submitted a batch without the certified amount, and it was rejected. The interim staff was erroneously informed by the fiscal person that the hard copies of the batch would be returned for the entering of the certified amount. Upon learning from DOA that this was not the procedure, staff keyed the certified amount and the batch was processed. This action caused two past due payments.

Central State Hospital and **Hiram Davis Medical Center** did not make prompt payment due to invoices received late from various departments. The accounts payable staff on the Petersburg Campus processes payments for three agencies and they are dependent on departments within each agency sending all necessary information in order to process invoices timely.

The **Office of the Attorney General** reports that they did not meet the Prompt Pay compliance due to a significant loss of staff in the area of Finance and Operations. Due to the need to reduce personnel to meet budget reductions the staff of Finance and Operations was reduced from seven to four total, a reduction of 43 percent. This included the office's only payroll and accounts

payable personnel. The office has restructured operations to cover the payroll function, but currently does not have any accounts payable staff. The remaining staff is covering this function. Additionally, there were reductions in support staff throughout the office, which delays receiving payment requests from the various areas.

The **Magistrate System** had five invoices that did not meet the prompt pay requirement for the third quarter. Three invoices were not paid on time because a chief magistrate had misplaced the original invoice from the vendor. A duplicate invoice was received and paid.



E-Commerce

The primary goal of the Department of Accounts' electronic commerce initiative is to reduce the number of state issued checks by using more efficient electronic payment processes. Tools such as Financial Electronic Data Interchange (EDI), Payroll Direct Deposit, and the Small Purchase Charge Card (SPCC) are more reliable and cost effective than traditional paper checks. Electronic payments are also more secure because of the use of encryption devices and other security measures. In addition to these tools, the use of electronic earnings notices through the Payline Opt Out program further reduces paper processing and related costs.

EDI, Direct Deposit, SPCC and Payline Opt Out are best practices that demonstrate effective financial management, particularly during difficult economic times. They increase efficiency in processing and eliminate wasteful use of time, paper, printing, and postage for both large and small vendor payments, payroll, and employee travel reimbursement. Agencies and institutions are expected to embrace these practices to the fullest extent possible. On the following pages, agencies and institutions are identified if e-commerce statistics indicate that they are not fully utilizing these tools.

E-commerce disbursements dollars increased to 85.8 percent during the third quarter, up from 84 percent during the second quarter. Transaction volumes remained the same as the second quarter, at 55.2 percent. Disbursements processed through the central systems for payroll, vendor payments and related expenditures totaled \$16.6 billion and 2.9 million transactions through the third quarter of FY 2003.

Statewide E-Commerce Performance Statistics

Quarter Ended March 31, 2003

| | E-Commerce | Total | % |
|---------------------------|-------------------|-----------------|----------|
| Number of Payments | 521,354 | 945,290 | 55.2% |
| Payment Amounts | \$4,676,586,828 | \$5,450,420,403 | 85.8% |

Fiscal Year 2003 to Date

| | E-Commerce | Total | % |
|---------------------------|-------------------|------------------|----------|
| Number of Payments | 1,599,105 | 2,912,461 | 54.9% |
| Payment Amounts | \$13,896,841,160 | \$16,604,534,538 | 83.7% |

Financial Electronic Data Interchange (EDI)

The dollar volume of Financial EDI payments for the third quarter of FY 2003 was \$105 million more than the same quarter of FY 2002, representing an increase of 2.7 percent. The number of trading partner accounts increased from 4,449 at the end of March 2002 to

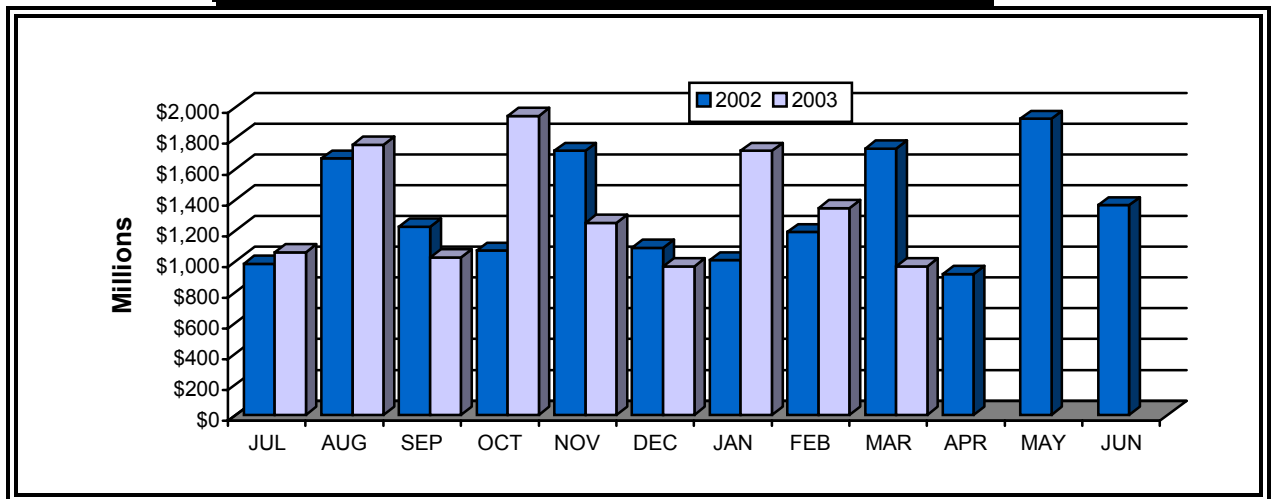
9,734 at the end of this quarter, an increase of 119 percent. The largest portion of this increase is due to efforts to convert state employee travel reimbursements from checks to electronic payments.

Financial EDI Activity

| <i>Financial EDI Activity</i> | <i>Quarter Ended March 31, 2003</i> | <i>Fiscal Year 2003 To Date</i> | <i>Comparative Fiscal Year 2002</i> |
|---|--|--|--|
| Number of Payments | 22,497 | 62,863 | 57,157 |
| Amount of Payments | \$4,025,015,252 | \$12,016,059,017 | \$11,660,008,819 |
| Number of Invoices Paid | 132,664 | 379,657 | 350,589 |
| Estimated Number of Checks Avoided | 47,325 | 135,468 | 122,821 |
| Number of Trading Partner Accounts as of 3-31-03 | | 9,734 | 4,449 |

EDI Payment Comparison

FY 2002 – FY 2003

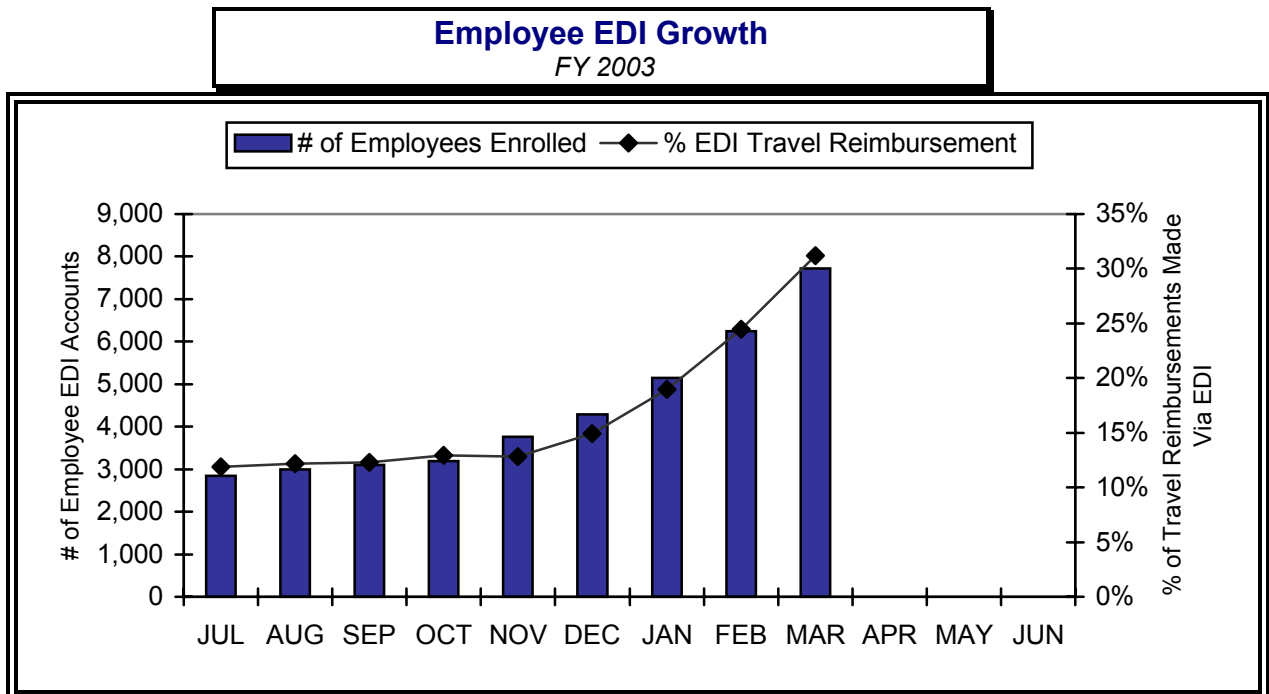


Employee EDI Utilization Compliance

Use of the Employee EDI program is an integral part of the statewide effort to reduce the administrative costs associated with paying for goods and services for the Commonwealth. The Appropriation Act requires employees who travel more than twice a year to be reimbursed using EDI. A notice regarding the requirement for Employee EDI was placed on the CARS broadcast screen during the quarter. DOA also placed calls to the agencies that produce the largest number of travel

reimbursement checks to notify them of the Appropriation Act requirement. The second quarters' statistics were provided to the fiscal officers of the agencies that participate in the program in an effort to increase the number of employees enrolled from those agencies.

Although participation has increased, many agencies have failed to enroll employees in EDI as required by law.



The following table lists by secretarial area the percentage of travel reimbursements that were made via EDI versus the number of checks that were written for travel reimbursements during the quarter.

**Travel Reimbursement
Employee EDI Performance
by Secretarial Area**

Quarter Ended March 31, 2003

| Secretarial Area | Percent | Reimbursement Checks Issued |
|----------------------------|---------------------|--|
| Administration | 12.9% | 203 |
| Commerce and Trade | 61.7% | 1,003 |
| Education* | 20.2% | 3,213 |
| Elected Officials | 11.0% | 130 |
| Finance | 90.3% | 57 |
| Health and Human Resources | 22.9% | 5,654 |
| Independent Agencies | 62.2% | 426 |
| Judicial | 5.1% | 2,311 |
| Legislative | 53.5% | 255 |
| Natural Resources | 19.3% | 1,139 |
| Public Safety | 6.8% | 4,612 |
| Technology | 6.3% | 59 |
| Transportation* | 45.1% | 157 |
| <i>Statewide</i> | <i>25.4%</i> | <i>19,219</i> |

* Statistics do not include agencies and institutions decentralized for vendor payment processing and the Department of Transportation, which currently processes travel reimbursements through petty cash.

The next *Quarterly Report* will list low participation rates by agency as of June 30, 2003. Contact DOA at edi@doa.state.va.us to enroll in the Employee EDI program.

Direct Deposit

During the third quarter of FY 2003, 379,448 checks were avoided using direct deposit. Agencies are expected to

take proactive steps to improve participation rates, particularly for wage employees.

Direct Deposit Performance by Secretarial Area

Quarter Ended March 31, 2003

| Secretarial Area | Direct Deposit % of Salary Employees | Direct Deposit % of Wage Employees |
|----------------------------|---|---|
| Administration | 87.7% | 88.9% |
| Commerce and Trade | 93.3% | 80.1% |
| Education | 90.8% | 28.1% |
| Elected Officials | 97.6% | 34.8% |
| Finance | 94.2% | 56.8% |
| Health and Human Resources | 82.0% | 66.7% |
| Independent Agencies | 96.0% | 80.0% |
| Judicial | 95.1% | 34.8% |
| Legislative | 94.2% | 57.8% |
| Natural Resources | 94.9% | 63.2% |
| Public Safety | 84.8% | 66.8% |
| Technology | 91.2% | 80.6% |
| Transportation | 79.5% | 51.4% |
| Statewide | 85.9% | 42.1% |



Statewide Salaried Direct Deposit Performance

Quarter Ended March 31, 2003

| | |
|--|--------------|
| Salaried Direct Deposit Participation | 85.9% |
|--|--------------|

Salaried Direct Deposit Below 80 Percent

| Agency | Percent | Number of Employees |
|--|---------|---------------------|
| <i>Education</i> | | |
| Gunston Hall Plantation | 75.0% | 8 |
| Jamestown 2007 | 75.0% | 4 |
| Tidewater Community College | 68.5% | 1,420 |
| <i>Health and Human Resources</i> | | |
| Southwestern Virginia Mental Health Institute | 79.1% | 522 |
| Western State Hospital | 77.5% | 757 |
| Southwestern Virginia Training Center | 76.2% | 450 |
| Southern Virginia Mental Health Institute | 72.6% | 161 |
| Central State Hospital | 68.6% | 730 |
| Hiram W. Davis Medical Center | 67.6% | 176 |
| Southside Virginia Training Center | 62.7% | 1,382 |
| Piedmont Geriatric Hospital | 62.7% | 322 |
| Central Virginia Training Center | 57.7% | 1,511 |
| <i>Public Safety</i> | | |
| Southampton Correctional Center | 79.2% | 77 |
| Powhatan Correctional Center | 78.7% | 349 |
| Augusta Correctional Center | 77.9% | 444 |
| Staunton Correctional Center | 77.7% | 18 |
| Southampton Reception and Classification Center | 77.5% | 245 |
| Eastern Region Correctional Field Units | 76.6% | 206 |
| Fluvanna Women's Correctional Center | 76.2% | 353 |
| Greensville Correctional Center | 75.9% | 840 |
| Brunswick Correctional Center | 72.4% | 378 |
| Mecklenburg Correctional Center | 72.0% | 301 |
| Bland Correctional Center | 71.8% | 284 |
| Dillwyn Correctional Center | 67.0% | 255 |
| Buckingham Correctional Center | 63.8% | 357 |
| Nottoway Correctional Center | 61.0% | 421 |
| <i>Transportation</i> | | |
| Department of Transportation - Fredericksburg District | 77.4% | 678 |
| Department of Transportation - Staunton District | 75.9% | 833 |
| Department of Transportation - Richmond District | 75.6% | 1,205 |
| Department of Transportation - Lynchburg District | 69.2% | 771 |
| Department of Transportation - Salem District | 68.8% | 960 |
| Department of Transportation - Culpeper District | 68.1% | 660 |
| Department of Transportation - Bristol District | 67.2% | 1,068 |

Statewide Wage Direct Deposit Performance

Quarter Ended March 31, 2003

Wage Direct Deposit Participation

42.1%

Wage Direct Deposit Below 40 Percent

| Agency | Percent | Number of Employees |
|--|----------------|----------------------------|
| <i>Education</i> | | |
| Virginia School for the Deaf, Blind, and Multi Disabled at Hampton | 39.2% | 102 |
| Eastern Shore Community College | 29.0% | 62 |
| Central Virginia Community College | 25.3% | 126 |
| Southwest Virginia Community College | 24.9% | 261 |
| Piedmont Virginia Community College | 24.3% | 144 |
| New River Community College | 21.7% | 280 |
| Lord Fairfax Community College | 21.2% | 259 |
| Wytheville Community College | 21.2% | 198 |
| Richard Bland College | 20.8% | 24 |
| Norfolk State University | 18.3% | 703 |
| Germanna Community College | 16.9% | 265 |
| Paul D Camp Community College | 16.0% | 137 |
| Blue Ridge Community College | 13.3% | 172 |
| Mountain Empire Community College | 13.2% | 241 |
| Thomas Nelson Community College | 13.0% | 489 |
| Dabney S Lancaster Community College | 12.8% | 101 |
| Radford University | 11.8% | 1,507 |
| Rappahannock Community College | 10.3% | 183 |
| Longwood University | 9.0% | 544 |
| Virginia Western Community College | 7.4% | 337 |
| Northern Virginia Community College | 6.1% | 1,766 |
| Danville Community College | 5.4% | 255 |
| Southside Virginia Community College | 1.5% | 257 |
| John Tyler Community College | 0.0% | 323 |
| Virginia Highlands Community College | 0.0% | 178 |
| <i>Judicial</i> | | |
| General District Courts | 22.7% | 145 |
| <i>Health and Human Resources</i> | | |
| Southside Virginia Training Center | 34.5% | 81 |
| Central Virginia Training Center | 0.0% | 66 |
| <i>Public Safety</i> | | |
| Department of Corrections/Adult Community Services | 26.6% | 15 |
| Department of Fire Programs | 25.6% | 39 |
| Virginia Correctional Enterprises | 5.4% | 37 |

Payroll Earnings Notices

Elimination of earnings notices associated with direct deposit is an additional method for increasing the benefits of electronic payments. Employees are currently able to obtain identical information online using the Payline system.

In addition to increasing direct deposit participation, agencies and institutions were expected to encourage employees to enroll in Payline and discontinue receipt of centrally printed earnings notices, effective November 1, 2002. Since this date, the Commonwealth has eliminated the printing of approximately 17,900 earnings notices. Participation in Payline and the Opt-Out initiative is listed below by secretarial area.

Payline and Earnings Notice Opt-Out Participation by Secretarial Area

Quarter Ended March 31, 2003

| Secretarial Area | Percent Payline Participation | Percent Earnings Notices Eliminated* |
|----------------------------|--|---|
| Administration | 45.8% | 31.6% |
| Commerce and Trade | 29.7% | 16.0% |
| Education | 8.1% | 5.1% |
| Elected Officials | 21.6% | 21.7% |
| Finance | 56.4% | 36.5% |
| Health and Human Resources | 16.3% | 8.0% |
| Independent Agencies | 27.0% | 12.1% |
| Judicial | 2.4% | 0.7% |
| Legislative | 25.1% | 23.1% |
| Natural Resources | 29.6% | 20.8% |
| Public Safety | 8.8% | 3.2% |
| Technology | 35.1% | 24.4% |
| Transportation | 11.8% | 3.9% |
| Statewide | 13.6% | 7.1% |

* Employees must participate in Payline in order to opt out of receiving centrally printed earnings notices.

Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Listed below are agencies where less than one percent of earnings notices have been eliminated by employees on direct deposit. Only agencies and institutions with more than 25 employees are included in this report.

| Agency | Percent Earnings Notices Eliminated | Earnings Notices Printed for 3/31/03 Payday |
|---|--|--|
| Commerce and Resources | | |
| Department of Business Assistance | 0.0% | 39 |
| Education | | |
| Frontier Culture Museum of Virginia | 0.0% | 50 |
| Southside Virginia Community College | 0.0% | 150 |
| Paul D. Camp Community College | 0.0% | 91 |
| Eastern Shore Community College | 0.0% | 63 |
| Dabney S. Lancaster Community College | 0.0% | 92 |
| Thomas Nelson Community College | 0.0% | 316 |
| Southwest Virginia Community College | 0.0% | 231 |
| Virginia Highlands Community College | 0.0% | 115 |
| New River Community College | 0.5% | 182 |
| Tidewater Community College | 0.6% | 1,413 |
| Piedmont Virginia Community College | 0.6% | 167 |
| Virginia School for the Deaf and the Blind at Staunton | 0.6% | 160 |
| Virginia School for the Deaf, Blind and Multi- Disabled at Hampton | 0.7% | 141 |
| Danville Community College | 0.8% | 132 |
| Radford University | 0.8% | 1,109 |
| Norfolk State University | 0.9% | 816 |
| Judicial | | |
| Magistrate System | 0.0% | 398 |
| Circuit Courts | 0.0% | 154 |
| Juvenile and Domestic Relations District Courts | 0.0% | 561 |
| Virginia State Bar | 0.0% | 83 |
| Court of Appeals of Virginia | 0.0% | 62 |
| General District Courts | 0.1% | 876 |
| Combined District Courts | 0.5% | 187 |
| Public Defender Commission | 0.6% | 342 |
| Legislative | | |
| Division of Legislative Services | 0.0% | 90 |
| Division of Capitol Police | 0.0% | 83 |
| Natural Resources | | |
| Department of Historic Resources | 0.0% | 38 |
| Department of Game and Inland Fisheries | 0.5% | 416 |

| Agency | Percent Earnings Notices Eliminated | Earnings Notices Printed for 3/31/03 Payday |
|--|--|--|
| <i>Public Safety</i> | | |
| Powhatan Correctional Center | 0.0% | 266 |
| Virginia Correctional Center for Women | 0.0% | 171 |
| Powhatan Reception and Classification Center | 0.0% | 96 |
| Southampton Correctional Center | 0.0% | 61 |
| Fluvanna Women's Correctional Center | 0.0% | 265 |
| Mecklenburg Correctional Center | 0.0% | 215 |
| Lunenburg Correctional Center | 0.0% | 223 |
| Red Onion Correctional Center | 0.3% | 371 |
| Wallens Ridge Correctional Center | 0.3% | 336 |
| Nottoway Correctional Center | 0.4% | 259 |
| Buckingham Correctional Center | 0.4% | 228 |
| James River Correctional Center | 0.5% | 204 |
| Western Region Correctional Field Units | 0.5% | 390 |
| Dillwyn Correctional Center | 0.6% | 172 |
| Department of Corrections/Adult Community Services | 0.7% | 1,158 |
| Virginia Correctional Enterprises | 0.7% | 136 |
| Haynesville Correctional Center | 0.7% | 272 |
| Greensville Correctional Center | 0.8% | 630 |
| Central Region Correctional Field Units | 0.8% | 125 |



Small Purchase Charge Card (SPCC)

The purchasing charge card offers State agencies and institutions an alternative payment method that improves administrative efficiency by consolidating invoice and payment processing for low dollar purchases. Use of the purchasing charge card decreases the number of checks issued and the associated administrative costs of processing invoices. The total amount

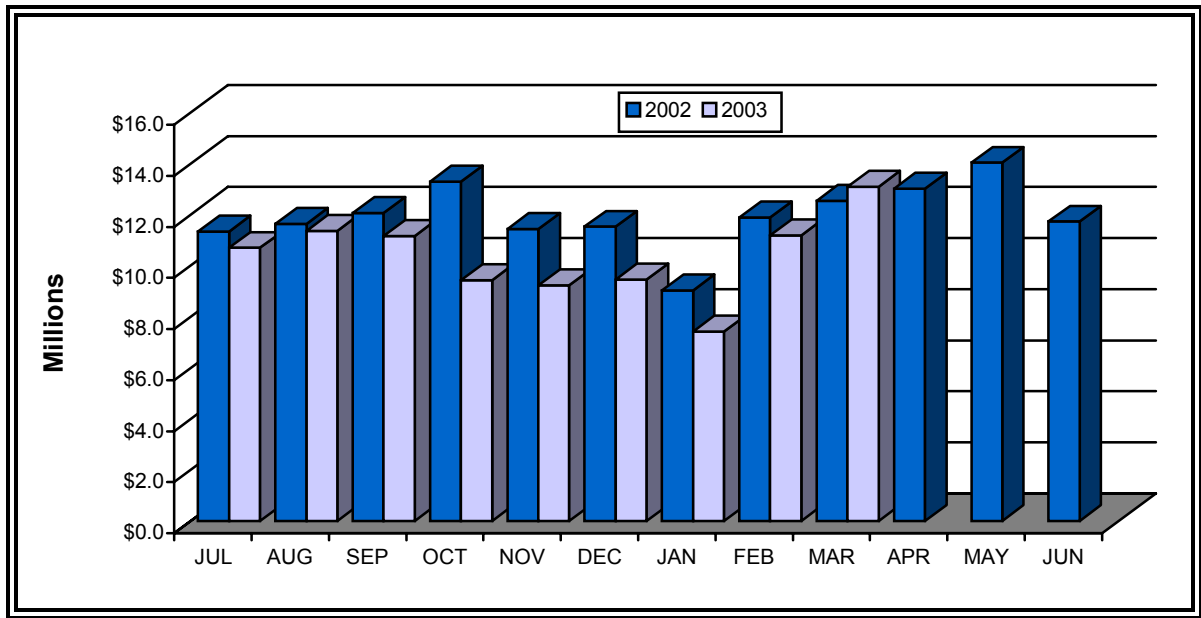
charged during the third quarter of FY 2003 decreased by \$1.8 million or 5.3 percent from the same quarter last year. Charges for the fiscal year to date have decreased by 11.2 percent from the same period last year. These decreases are attributable to budget and spending reductions.

Small Purchase Charge Card Program

| <i>Charge Card Activity</i> | <i>Quarter Ended March 31, 2003</i> | <i>Fiscal Year 2003</i> | <i>Comparative Fiscal Year 2002</i> |
|--|--|--------------------------------|--|
| Amount of Charges | \$31,747,953 | \$93,148,136 | \$104,900,274 |
| Estimated Number of Checks Avoided | 94,521 | 283,939 | 314,309 |
| Total Number of Participating Agencies | | 194 | 192 |
| Total Number of Cards Outstanding | | 10,446 | 10,585 |

The following chart compares charge activity for FY 2003 to activity for FY 2002.

Charge Amount Comparison *FY 2002 - FY 2003*



SPCC Utilization Compliance

Maximum use of the SPCC program, in conjunction with other e-commerce initiatives, is essential to the statewide effort to reduce the costs associated with paying for goods and services for the Commonwealth. The following tables list SPCC participation by secretarial area and identify those agencies that are not maximizing charge card use and the associated cost savings. Several efforts are underway to increase utilization. In a joint effort by DOA, DGS, and American Express, vendors currently registered on eVA are being encouraged to accept the card as payment and vendors who currently accept the card are being encouraged to register with eVA. In addition, online SPCC Program Administrator training focuses attention on the ease and efficiency of card usage, and the introduction of the Gold card to facilitate higher dollar purchases.

Statewide SPCC Performance

Quarter Ended March 31, 2003

| | |
|---|------------|
| Percentage Utilization for Eligible Transactions | 73% |
|---|------------|

SPCC Utilization by Secretarial Area

Quarter Ended March 31, 2003

| Secretarial Area | Payments in Compliance⁽¹⁾ | Non-Compliant Transactions⁽²⁾ |
|----------------------------|---|---|
| Administration | 74% | 787 |
| Commerce and Trade | 73% | 1,405 |
| Education* | 79% | 5,652 |
| Elected Officials | 28% | 295 |
| Finance | 64% | 311 |
| Health and Human Resources | 56% | 9,496 |
| Independent Agencies | 37% | 868 |
| Judicial | 47% | 1,508 |
| Legislative | 62% | 271 |
| Natural Resources | 89% | 765 |
| Public Safety | 71% | 6,087 |
| Technology | 49% | 232 |
| Transportation* | 81% | 7,979 |
| Statewide | 73% | 35,656 |

* Statistics do not include agencies and institutions decentralized for vendor payment processing.

⁽¹⁾ **"Payments in Compliance"** represents the percentage of purchases made from participating SPCC vendors using the purchasing card.

⁽²⁾ **"Non-Compliant Transactions"** represents the number of small purchases from participating SPCC vendors where the purchasing card was not used for payment.

**Agency SPCC Performance
Utilization Below 45 Percent**

| Agency | Payments in Compliance | Non-Compliant Transactions |
|---|-----------------------------------|---------------------------------------|
| Commerce and Resources | | |
| Virginia Employment Commission | 44% | 553 |
| Department of Labor and Industry | 0% | 110 |
| Education | | |
| Christopher Newport University | 38% | 675 |
| Norfolk State University | 36% | 701 |
| Virginia School for the Deaf and the Blind at Staunton | 30% | 162 |
| Virginia State University/Cooperative Extension and Agricultural Research Services | 3% | 633 |
| Executive Offices | | |
| Attorney General and Department of Law | 43% | 134 |
| Health and Human Resources | | |
| Northern Virginia Mental Health Institute | 34% | 147 |
| Department of Medical Assistance Services | 33% | 187 |
| Northern Virginia Training Center | 31% | 176 |
| Department for the Deaf and Hard-of-Hearing | 18% | 89 |
| Eastern State Hospital | 5% | 756 |
| Independent | | |
| State Lottery Department | 18% | 353 |
| State Corporation Commission | 0% | 368 |
| Legislative | | |
| Senate of Virginia | 40% | 90 |
| Public Safety | | |
| Red Onion Correctional Center | 42% | 113 |
| Powhatan Correctional Center | 37% | 221 |
| Virginia Correctional Center for Women | 35% | 132 |
| Department of Military Affairs | 30% | 741 |
| Sussex I Correctional Center | 26% | 110 |
| Deep Meadow Correctional Center | 12% | 152 |
| Keen Mountain Correctional Center | 8% | 119 |

SPCC Payment Compliance

Agencies and institutions participating in the SPCC program are required to submit payments via EDI to the SPCC vendor by the 14th of each month. Failure to pay the correct amount when due jeopardizes the Commonwealth's

contractual relationship with the purchasing card vendor and may result in suspension of an agency's charge card program. The following chart lists agencies more than three days late in submitting their payments.

| Agency Name | Jan | Feb | Mar |
|---|-----|-----|-----|
| Education | | | |
| College of William and Mary in Virginia | | X | |
| New River Community College | | | X |
| Virginia Community College System | | | X |
| Wytheville Community College | X | | |
| Legislative | | | |
| Division of Capitol Police | X | | |
| Division of Legislative Services | X | | |
| Senate of Virginia | X | X | |
| Public Safety | | | |
| Coffeewood Correctional Center | | | X |
| Greenville Correctional Center | | X | |
| Staunton Correctional Center | | X | |
| Virginia Correctional Enterprises | X | | |

American Express recently introduced e-Bill, a product that allows agencies to download bills (Monthly Summary of Accounts statement) electronically through AMEX@Work. With e-Bill, information is available within 2 to 3 days after cycle close, instead of waiting

for the traditional delivery method by courier in 5 to 7 days. To obtain additional information or sign up for e-Bill, contact Sheila McNair at (804) 225-2230 or send an e-mail to smcnair@doa.state.va.us.



Payroll Controls

PMIS/CIPPS Payroll Audit

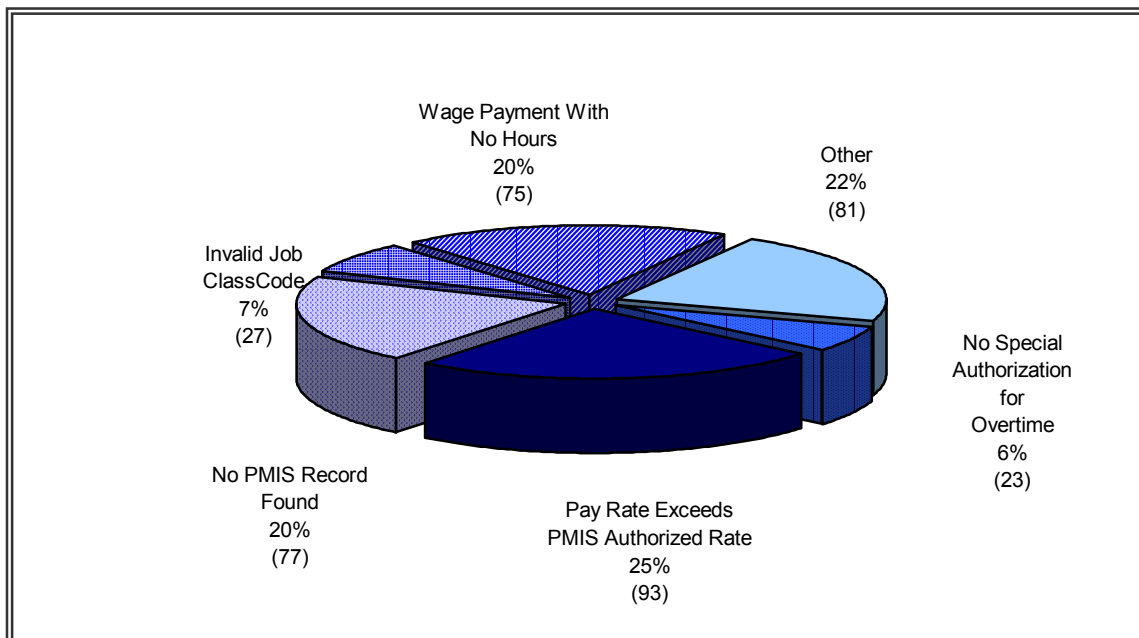
During the quarter, DOA's automated comparison of payroll and personnel (PMIS) records examined 424,178 salaried pay transactions and 232,366 wage pay transactions. The comparison is performed following each payday and is designed to identify discrepancies between authorized salary/wage amounts in PMIS and amounts paid in CIPPS. There were 784 new exceptions noted statewide during the quarter, with an overall exception rate of 0.13 percent.

The statewide salaried payroll exception rate was 0.16 percent and the wage payroll exception rate was 0.07 percent. During this quarter, 21 employee paychecks were reduced to recover \$19,066.04 in overpayments.

The largest single cause of exceptions is agency failure to complete the salary increase authorization process by updating PMIS salary amounts *prior* to paying the increased salary amount in CIPPS. The PMIS authorization is an important internal control over payroll processing. Such exceptions can largely be avoided through timely PMIS data entry by agency Human Resource staff. Although segregation of these Human Resource and Payroll functions is an effective internal control, coordination and communication between agency Human Resource and Payroll staffs is essential.

Payroll Audit Exception Report

Quarter Ended March 31, 2003



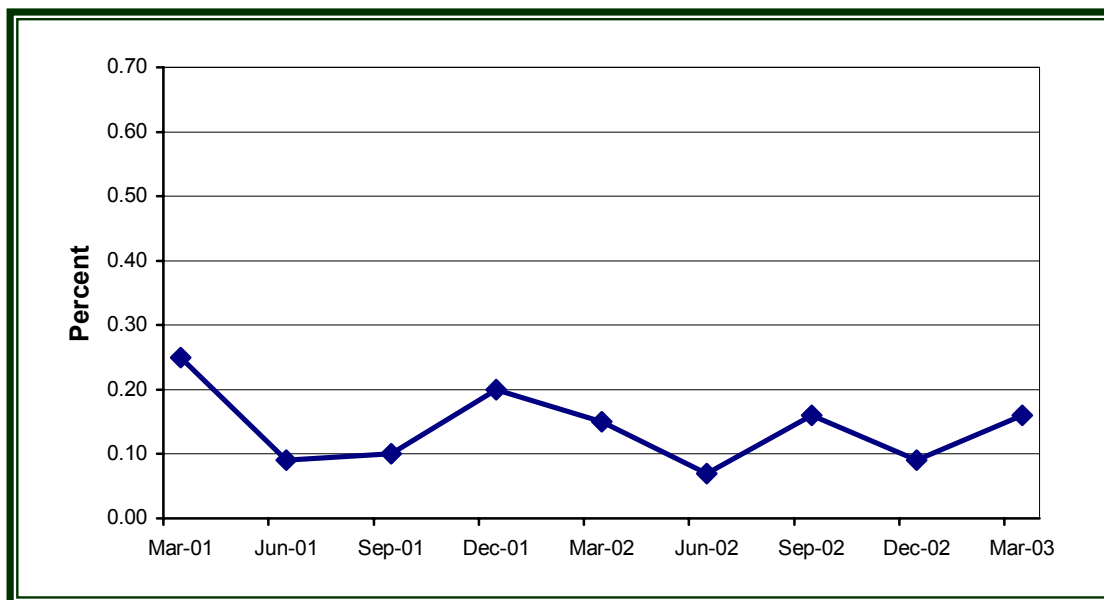
Exception percentages are calculated by dividing the number of exceptions by the number of salaried or wage employees. Agencies are reported below if the percentage of payroll exceptions to salaried or wage payments exceeds twice the statewide average for the quarter.

Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Salaried Payments
Quarter Ended March 31, 2003

| <u>Agency</u> | <u>Exceptions as a % of Salaried Payments</u> |
|--|---|
| No agency exceeded the reportable percentage. | |
| Total Salaried Payroll Exceptions for the Quarter | 0.16% |

The following chart compares payroll exceptions as a percentage of salaried payments by quarter for the past two years.

Total Quarterly Salaried Exceptions
March 2001 – March 2003

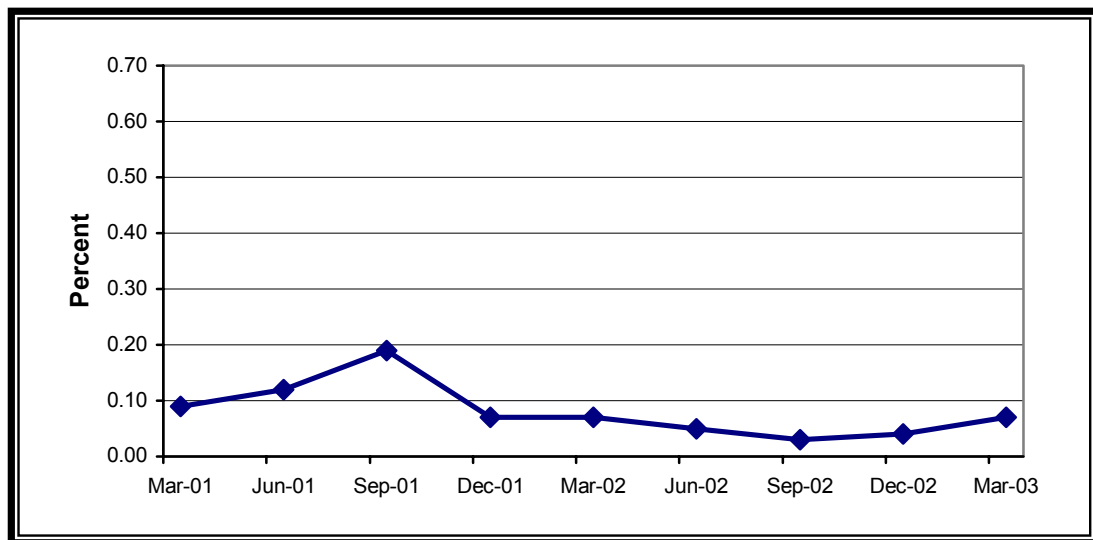


Payroll Exception Audit
Agency Payroll Exceptions as a Percent of Wage Payments
Quarter Ended March 31, 2003

| Agency | Exceptions as a % of Wage Payments |
|--|--|
| Rappahannock Community College | 0.75% |
| Department of Social Services | 1.88% |
| Wage Payroll Exceptions for the Quarter | |
| | 0.07% |

The following chart compares payroll exceptions as a percentage of wage payments by quarter for the past two years.

Total Quarterly Wage Exceptions
March 2001 – March 2003



PMIS/CIPPS Exceptions

Agencies are required to submit explanations and/or reconciliations for the differences identified on the CIPPS/PMIS Unresolved Exceptions Report, within 6 weeks of notification. The following table lists those agencies having exceptions that remain unresolved six weeks after receipt of the report.

| <u>Agency</u> | <u>Unresolved Exceptions</u> |
|--------------------------------------|------------------------------|
| Department of Taxation | 6 |
| Augusta Correctional Center | 6 |
| Fluvanna Women's Correctional Center | 4 |



Payroll Certification

Agencies are required to calculate, verify, and authorize the amount to be disbursed for each payroll. This responsibility can be met through the timely preparation of agency payrolls, request and review of automated edit reports, and correction of errors prior to requesting actual payroll runs which result in payroll disbursements. This process is referred to as "payroll certification." Payroll certification serves as a critical internal control to ensure payroll disbursements are accurate and authorized. Agency payroll certifications are monitored centrally to ensure that agencies conduct this important function.

Differences between the amount calculated by the payroll system based on agency input and the amount certified by the agency to be disbursed based on edit reports are identified in automated reports provided to agencies. Agencies are required to submit explanations and/or reconciliations of the differences identified on this report by the end of the day following receipt of the report. Differences result from agency payroll errors, miscalculations, online certification data entry errors, and inappropriately high volumes of changes following certification. Although differences do not result in undetected

incorrect payments, such errors are avoidable and are not consistent with sound internal control over payroll.

Since timely certification is also essential, authorized and trained staff, as well as telecommunications access and computer terminals, must be available at all times. Reliable back-up plans are necessary should any of these resources be unavailable on a critical payroll processing date due to emergency or other circumstances.

Agencies are required to enter applicable payroll certification requests into the payroll system by 3:30 p.m. daily to ensure sufficient time is available for central review by DOA staff to validate certification entries, a critical compensating control. Late entries, either initial or correcting, make certification review more difficult or impossible. When a data entry error is detected during the review process, DOA must make corrections to avoid inaccurate payroll disbursements and/or voluminous and costly corrective action.

The table on the following page lists agencies and institutions that have failed to comply with one or more of the requirements for accurate and timely payroll certification.

Payroll Certification Compliance

| Agency | Variance Amount (a) | Performed by DOA (b) | Submitted Late (c) | Corrected by DOA (d) |
|---|---------------------------|----------------------------|--------------------------|----------------------------|
| Education | | | | |
| Northern Virginia Community College | \$845,166 | | 4 | |
| Thomas Nelson Community College | \$21,336 | | | |
| Jamestown 2007 | \$181,012 | | | |
| Jamestown-Yorktown Foundation | \$181,012 | | | |
| Rappahannock Community College | | | 2 | |
| Piedmont Virginia Community College | | | 2 | |
| J. Sargeant Reynolds Community College | | | 2 | |
| Virginia Western Community College | | | 2 | |
| Blue Ridge Community College | | | 3 | |
| Legislative | | | | |
| House of Delegates | \$22,665 | | 2 | |
| Health and Human Resources | | | | |
| Central State Hospital | \$113,467 | | | |
| Department of Social Services | \$44,172 | | | |
| Public Safety | | | | |
| Sussex 2 Correctional Center | \$27,753 | | | |
| Transportation | | | | |
| Department of Transportation – Richmond District | \$385,003 | | | |

Columns show the following:

- (a) Variance in dollars for agencies whose certified amounts varied from actual computed amounts by more than \$20,000 for any payrolls processed during the quarter.
- (b) The number of times DOA had to perform the certification function for the agency due to inadequate agency back-up.
- (c) The number of certifications that were submitted or altered later than the daily deadline.
- (d) The number of times DOA made corrections to agency certifications during the quarter.

Healthcare Reconciliations

Employee healthcare fringe benefits costs are covered by a combination of agency paid and employee-paid premiums. Agencies are required to return a *Certification of Automated Health Care Reconciliations* form to DOA by the close of the month following the month of coverage. This reconciliation annotates differences between healthcare eligibility records (BES) and healthcare premium payments collected through payroll deduction. The following table

lists those agencies that were late in submitting their certification or had problems requiring additional adjustments. Such problems may include incomplete or incorrect documents or required IAT's not submitted to DOA. Healthcare reconciliations for the months of December, January, and February, were due 1/31/03, 2/28/03, and 3/31/03, respectively.

Schedule of Late Health Care Reconciliations

| | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> |
|--|-------------------|-------------------|-------------------|
| <i>Education</i> | | | |
| Piedmont Virginia Community College | X | X | |
| The Science Museum of Virginia | X | X | X |
| Virginia Museum of Fine Arts | | | X |
| Virginia School for the Deaf and the Blind at Staunton | X | | |
| <i>Elected Officials</i> | | | |
| Attorney General | X | X | X |
| Attorney General/Division of Debt Collection | X | X | X |
| <i>Health and Human Resources</i> | | | |
| Southeastern Virginia Training Center | X | | |
| <i>Natural Resources</i> | | | |
| Virginia Museum of Natural History | X | X | |
| <i>Public Safety</i> | | | |
| Staunton Correctional Center | X | | X |
| Sussex II Correctional Center | X | | |
| Coffeewood Correctional Center | X | X | |
| Department of Alcoholic Beverage Control | | | X |
| <i>Transportation</i> | | | |
| Department of Transportation | X | X | X |



FINANCIAL MANAGEMENT ACTIVITY

DOA monitors several types of financial activity. Various measures are used to track activities for CARS, payroll,

accounts receivable, indirect cost recoveries, treasury loans, and Fixed Asset Accounting and Control System (FAACS).

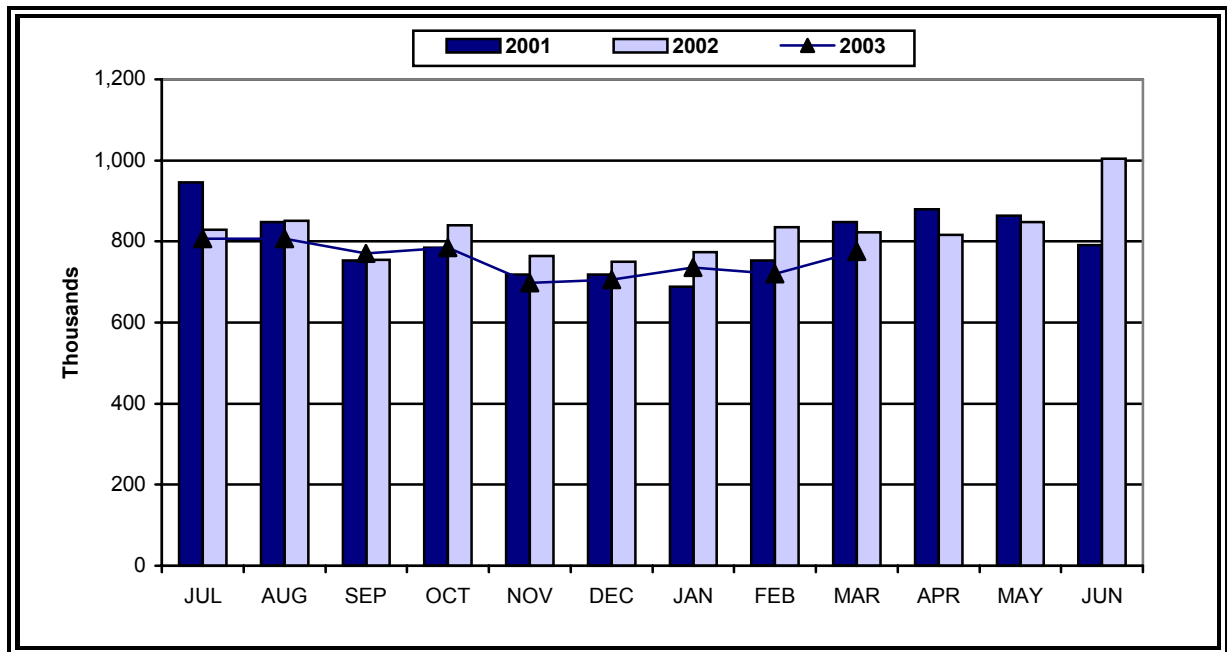
Commonwealth Accounting and Reporting System (CARS)

CARS activity trends provide important information about Statewide accounting. Currently, measures are used to track CARS transactions and error counts. A marked increase or decrease in the

number of CARS transactions may indicate that an agency has changed the way it accounts for an activity. Such change may require DOA review.

CARS Transactions

Fiscal Years 2001 - 2003



CARS Edits

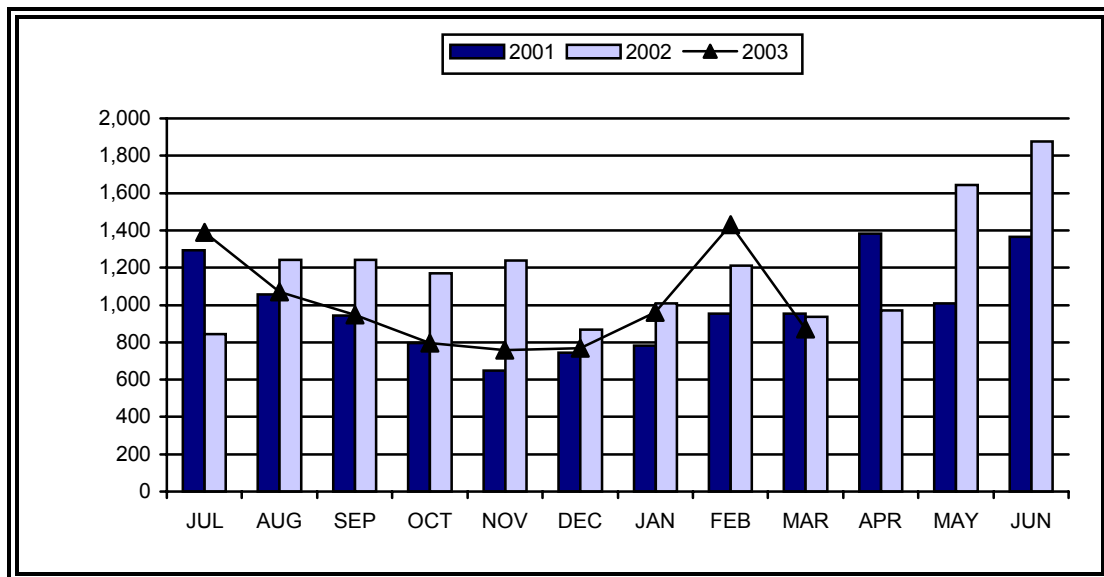
One of the most important management tools used by DOA is the monitoring of CARS errors generated by standard system edits. Batches remain on the error file until problems are resolved, which, for disbursement transactions, can lead to noncompliance with prompt payment standards and poor vendor relations. During the second quarter of FY 2003, the most frequent reasons cited for batches being sent to the error file were:

- ◆ Available Cash Negative
- ◆ Expenditures Exceed Allotments
- ◆ Prior Fiscal Month Not Open

Agencies may avoid such errors by more closely monitoring cash balances. Sound agency cash management practices should be developed to ensure transactions are not submitted to CARS when funding is not available.

Agencies should develop internal month-end cut-off schedules to allow sufficient time for batches to post to CARS prior to the fiscal month being closed.

CARS Monthly Errors
Average Number of Daily Errors
Fiscal Years 2001 - 2003



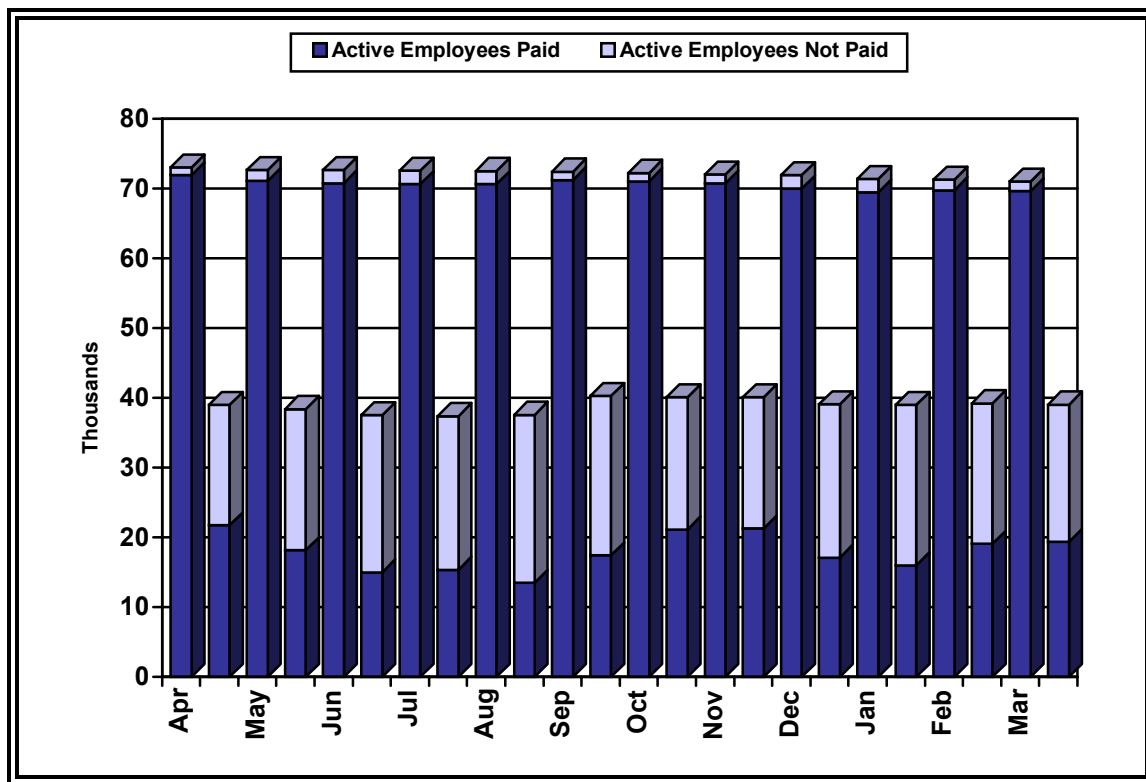
Payroll

The central payroll system for State government is known as *CIPPS*, the Commonwealth Integrated Payroll Personnel System. CIPPS is one of the largest payroll operations in the Commonwealth, serving 110,286 employees. Payroll services are also provided through eight decentralized higher education institutions.

Total gross payrolls for the Commonwealth were approximately \$389 million each month of the quarter. On average, 87,770 employees were paid each month, of which 69,606 were salary employees.

Commonwealth Integrated Payroll / Personnel System (CIPPS) Statistics

April 2002 – March 2003



NOTE: The first bar for each month represents salaried employees, and the next bar represents wage employees. Not all active employees are paid on a current basis. Examples would include employees on extended leave without pay and adjunct faculty not teaching during the current semester.

Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Benefit Participation by CIPPS Agencies

The Commonwealth offers a variety of benefits to State employees, including health care, optional retirement plans, deferred compensation, and flexible reimbursement programs. During the quarter, state employees purchased 17,396 savings bonds with a face value of over \$2.3 million.

Benefit Participation Number of Participating Employees

| | As of 3/31/03 | Comparative | |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| | | As of 3/31/02 | As of 3/31/01 |
| Health Care | | | |
| Key Advantage | 61,813 | 66,669 | 68,424 |
| Cost Alliance | 16,778 | 12,785 | 10,254 |
| Aetna – PS | 198 | 56 | 20 |
| Aetna – HMO | 1,177 | 275 | 76 |
| Optimum Choice – Std | N/A | 34 | 31 |
| Optimum Choice - High | N/A | 133 | 134 |
| Kaiser | 1,763 | 1,792 | 1,785 |
| Cigna | N/A | 2,694 | 2,953 |
| Piedmont | 136 | 109 | 51 |
| Optional Retirement Plans * | | | |
| Fidelity Investments | 278 | 300 | 280 |
| Great West Life | 15 | 18 | 18 |
| TIAA/CREF | 1,282 | 1,262 | 1,212 |
| T. Rowe Price | 62 | 68 | 66 |
| VALIC | 243 | 256 | 258 |
| Political Appointee - ORP | 73 | 67 | 101 |
| Deferred Compensation * | | | |
| Great West Life | 25,689 | 24,104 | 22,695 |
| Flexible Reimbursement * | | | |
| Dependent Care | 637 | 643 | 624 |
| Medical Care | 3,554 | 3,202 | 2,778 |

* Statistics do not include employees of eight institutions of higher education that are decentralized for payroll processing.

Accounts Receivable

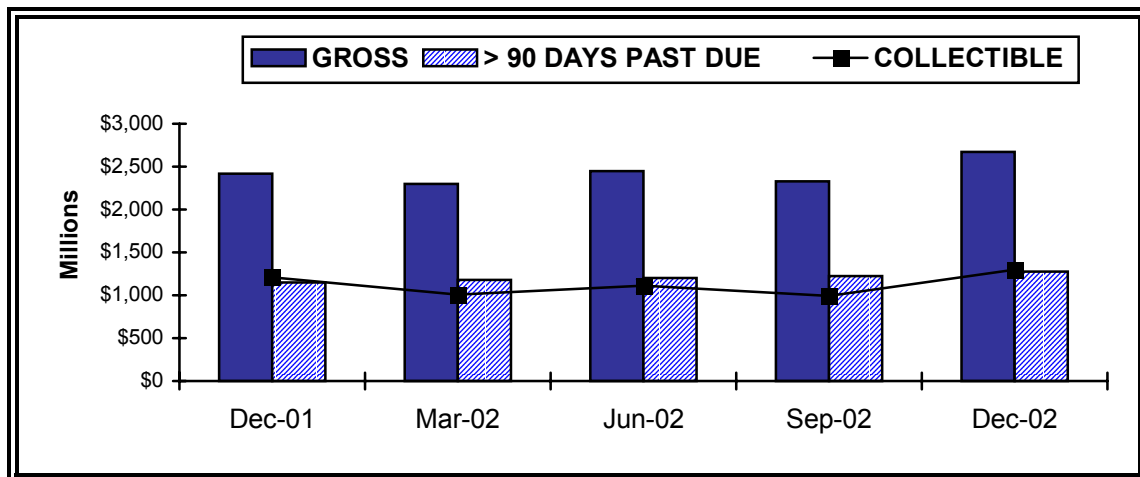
Chapter 48 of the *Code of Virginia* requires the Department of Accounts, along with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. In order to carry out this responsibility, DOA has issued policies and procedures on accounting, collecting, reporting, and writing off accounts receivable. In addition, DOA provides technical assistance to agencies and institutions and uses statistical analyses and audit reports to monitor the ongoing effectiveness of agencies in managing their accounts receivable. Commonwealth agencies and institutions reported total gross receivables of \$2.7 billion at December 31, 2002, with \$1.3

billion considered collectible. Receivables over 90 days past due as of December 31, 2002 totaled \$1.3 billion. Of that amount, \$641 million was placed with collection agencies or attorneys for additional collection efforts.

It is important to note that state receivables largely consist of taxes, fines, penalties, tuition and fees, and billings for several indigent care programs, which present numerous special problems in collection. "Trade receivables" typical of the private sector, which are generated by billings for the provision of goods and/or services, make up only a small portion of state receivables.

Gross, Past Due, and Collectible Receivables

December 2001 – December 2002



As of December 31, 2002, agencies expected to collect \$1.3 billion (49%) of all receivables. About 14 percent of these receivables are due to the General

Fund, primarily for tax assessments. The balance (\$1.1 billion) consists of amounts due to various nongeneral funds' activities.

Collectible Receivables by Fund

As of December 31, 2002

| Fund | Source | Amount | Percent |
|--|---------------------------|------------------------|----------------|
| General Fund (14%) | Medicaid | \$ 28,824,313 | 16 |
| | Individual Taxes | 75,382,881 | 41 |
| | Business Taxes | 48,195,612 | 26 |
| | Courts of Justice | 19,913,786 | 11 |
| | Other | <u>9,329,858</u> | <u>5</u> |
| | Subtotal | 181,646,450 | 99 |
| | Interagency Receivables | 783,783 | 1 |
| Total General Fund Collectible | | \$ 182,430,233 | 100 |
| Nongeneral Funds (86%) | Medicaid | 5,773,316 | 1 |
| | Unemployment Taxes | 39,357,427 | 3 |
| | Transportation | 96,269,435 | 8 |
| | Child Support Enforcement | 12,025,738 | 1 |
| | Federal Government | 62,593,718 | 6 |
| | MHMR Patient Services | 23,315,446 | 2 |
| | Hospital | 142,505,636 | 13 |
| | Enterprise | 40,782,805 | 4 |
| | Higher Education | 608,408,982 | 54 |
| | Courts of Justice | 21,816,696 | 2 |
| | Other | <u>18,854,815</u> | <u>2</u> |
| | Subtotal | 1,071,704,014 | 96 |
| | Interagency Receivables | 48,047,355 | 4 |
| Total Nongeneral Fund Collectible | | \$1,119,751,369 | 100.0 |
| All Funds | Grand Total | \$1,302,181,602 | 100.0 |

Ten agencies account for 68 percent of the Commonwealth's gross accounts receivable and 68 percent of the collectible accounts receivable balances.

In addition, these ten agencies comprise 69 percent of the \$1.5 billion in past due receivables and 69 percent of the \$1.3 billion over 90 days past due.

Accounts Receivable Summary *Quarter Ended December 31, 2002*

| Agency | Gross | Allowance for Uncollectible Accounts | Collectible |
|---|------------------------|---|------------------------|
| University of Virginia Medical Center | \$ 151,362,765 | \$ 8,857,129 | \$ 142,505,636 |
| Virginia Polytechnic Institute and State University | 136,394,240 | 1,256,834 | 135,137,406 |
| Department of Taxation | 968,361,173 | 838,432,141 | 129,929,032 |
| Department of Transportation | 91,675,677 | 196,372 | 91,479,305 |
| Virginia Commonwealth University | 78,251,672 | 2,021,637 | 76,230,035 |
| Department of Social Services | 154,301,783 | 83,817,993 | 70,483,790 |
| George Mason University | 65,863,508 | 264,033 | 65,599,475 |
| James Madison University | 61,159,877 | 1,049,067 | 60,110,810 |
| University of Virginia | 59,825,042 | 1,877,382 | 57,947,660 |
| College of William and Mary in Virginia | 55,500,978 | 16,217 | 55,484,761 |
| Total | \$1,822,696,715 | \$ 937,788,805 | \$ 884,907,910 |
| All Others | 850,867,758 | 433,594,066 | 417,273,692 |
| Grand Total | \$2,673,564,473 | \$1,371,382,871 | \$1,302,181,602 |

In addition to internal administrative collection efforts, agencies have three other collection tools available to them. These are computerized matching and debt setoff programs at the Departments of Taxation, Lottery and Accounts, private collection agencies, and the Attorney General's Division of Debt Collection.

DOA requires state agencies and institutions to use the computerized matching and debt setoff programs for receivables that are 30 days or more past due. DOA also requires the use of private collection agencies on delinquent accounts that are 90 days or more past

due that are not sent to the Attorney General's Division of Debt Collection. The Office of the Attorney General requires state agencies and institutions to send accounts of \$3,000 or more and 90 days or more past due to the Division of Debt Collection.

These additional collection tools recovered \$3.9 million during the quarter ended December 31, 2002. The largest contributor was the private collection agencies, with collections of \$2.5 million. The Division of Debt Collection contributed \$977,227 and the debt setoff programs (Tax, Comptroller's and Lottery) collected \$361,600.

RECEIVABLES OVER 90 DAYS PAST DUE

As of December 31, 2002

| AGENCY | Total Over 90 Days | With Collection Agency (1) | With Attorney General | Retained by State Agency |
|---|------------------------|----------------------------|-----------------------|--------------------------|
| Department of Taxation | \$ 807,863,368 | \$ 309,484,612 | \$ 0 | \$ 498,378,756 |
| Courts of Justice | 313,480,224 | 313,480,224 | 0 | 0 |
| Department of Medical Assistance Services | 39,545,097 | 538,628 | 6,181 | 39,000,288 |
| University of Virginia Medical Center | 31,055,857 | 0 | 0 | 31,055,857 |
| Virginia Employment Commission | 19,621,425 | 3,843,659 | 1,045,183 | 14,732,583 |
| Department of Social Services | 11,721,860 | 0 | 0 | 11,721,860 |
| Department of Transportation | 9,308,636 | 0 | 4,225,636 | 5,083,000 |
| Department of Mental Health, Mental Retardation, and Substance Abuse Services | 3,726,137 | 0 | 0 | 3,726,137 |
| Workers' Compensation Commission | 3,682,118 | 155,275 | 1,271,164 | 2,255,679 |
| George Mason University | 3,625,721 | 1,099,094 | 34,887 | 2,491,740 |
| TOTAL | \$1,243,630,443 | \$ 628,601,492 | \$ 6,583,051 | \$ 608,445,900 |
| <i>All Other Agencies</i> | 29,146,963 | 3,815,372 | 1,975,367 | 23,356,224 |
| GRAND TOTAL | \$1,272,777,406 | \$ 632,416,864 | \$ 8,558,418 | \$631,802,124 |

(1) Amounts include accounts in the hands of Commonwealth's Attorneys functioning as private collectors, as well as the courts' debt and tax debt collection operation, which functions as a private collection agency.

Comptroller's Debt Setoff (CDS) Program

CDS is one of the debt setoff programs used by agencies to collect past due accounts receivable owed the State, primarily by businesses and individuals acting in a business capacity. Under

CDS, a payment made by the State to the debtor may be withheld, in full or in part, to satisfy the debt owed the State. CDS collected \$2.9 million through the third quarter of FY 2003.

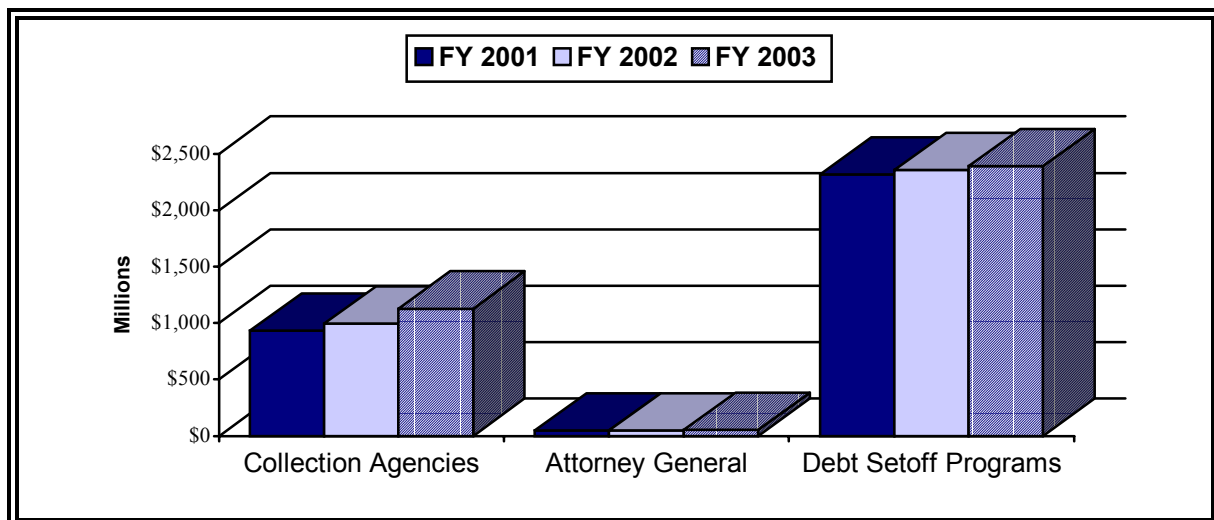
One way to measure an agency's effectiveness at managing its accounts receivable is to look at how efficient collection procedures are on accounts that become delinquent. The table below looks at trend percentages of receivables over 90 days past due as a percentage of gross receivables for the ten agencies with the largest amounts of receivables over 90 days past due.

Percentage of Gross Receivables Over 90 Days Past Due

| Agency | Percent at 12/31/02 | Percent at 12/31/01 | Percent at 12/31/00 |
|---|------------------------|------------------------|------------------------|
| Department of Taxation | 83.4% | 81.6% | 80.4% |
| Courts of Justice | 78.8% | 79.3% | 79.7% |
| Department of Medical Assistance Services | 55.6% | 45.8% | 53.5% |
| University of Virginia Medical Center | 20.5% | 23.2% | 19.6% |
| Virginia Employment Commission | 34.3% | 39.8% | 47.0% |
| Department of Social Services | 7.6% | 9.9% | 4.7% |
| Department of Transportation | 10.2% | 11.1% | 31.7% |
| Department of Mental Health, Mental Retardation, and Substance Abuse Services | 10.7% | 9.4% | 16.3% |
| Workers' Compensation Commission | 83.3% | 87.6% | 82.5% |
| George Mason University | 5.5% | 2.5% | 3.0% |

Total Past Due Accounts Listed With Collection Resources

Quarter Ended December 31, 2002

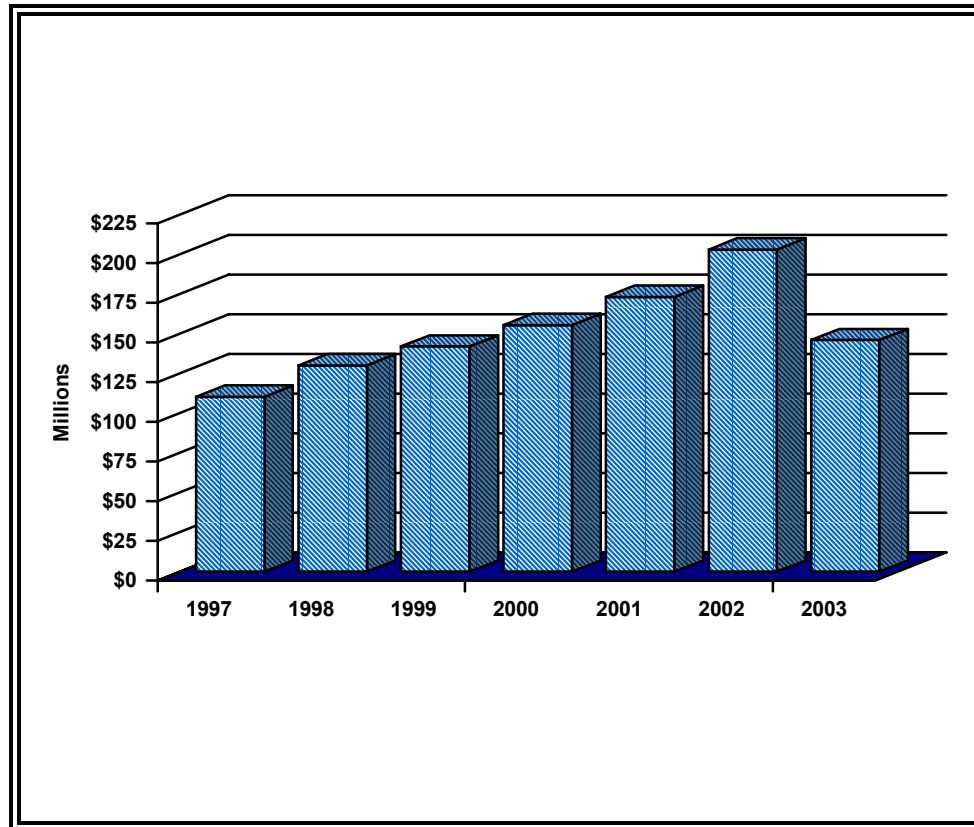


Indirect Costs

The Department of Accounts prepares a Federal Statewide Indirect Cost Allocation Plan (SICAP) annually that identifies the central service agency General Fund support provided to all State agencies. Agencies receiving Federal grants or contracts prepare indirect cost rate proposals or cost allocation plans that include both the

agency (agency specific overhead expenditures) and Statewide (overhead expenditures incurred by the State's central service agencies for support provided to other State agencies) indirect costs associated with the administration and management of federal, State, or private grant and contract activity.

Total Indirect Cost Recoveries*
For Fiscal Years Ended 1997-2003



*FY 2003 reflects indirect cost recoveries through March 2003.

Indirect Cost Recoveries From Grants and Contracts

Fiscal Year 2003

| Funds | Year to Date | | |
|-------------------------------------|----------------------|----------------------|-----------------------|
| | Higher Ed | Non-Higher Ed | Total |
| Nongeneral: | | | |
| Agency / Institution ⁽¹⁾ | \$ 87,339,755 | \$ 56,735,688 | \$ 144,075,443 |
| Statewide ⁽²⁾ | 516,590 | 517,510 | 1,034,100 |
| Total Nongeneral | 87,856,345 | 57,253,198 | 145,109,543 |
| General: | | | |
| Agency (Cash Transfers) | 0 | 114,441 | 114,441 |
| Statewide ⁽³⁾ | 0 | 954,732 | 954,732 |
| Statewide (Cash Transfers) | 0 | 552 | 552 |
| Total General | 0 | 1,069,725 | 1,069,725 |
| Total | \$ 87,856,345 | \$ 58,322,923 | \$ 146,179,268 |

- (1) The Department of Social Services records all federal monies received in CARS. However, it does not separately classify such receipts between direct and indirect. Included in the agency (non-higher ed) nongeneral fund category is \$43,152,018, representing the Department of Social Services' estimate of indirect cost recoveries received.
- (2) Statewide indirect cost recoveries that are appropriated back to an agency (non-higher ed) are recorded in the Nongeneral Fund category.
- (3) Statewide indirect cost recoveries that are not appropriated back to an agency (non-higher ed) are placed in the General Fund.

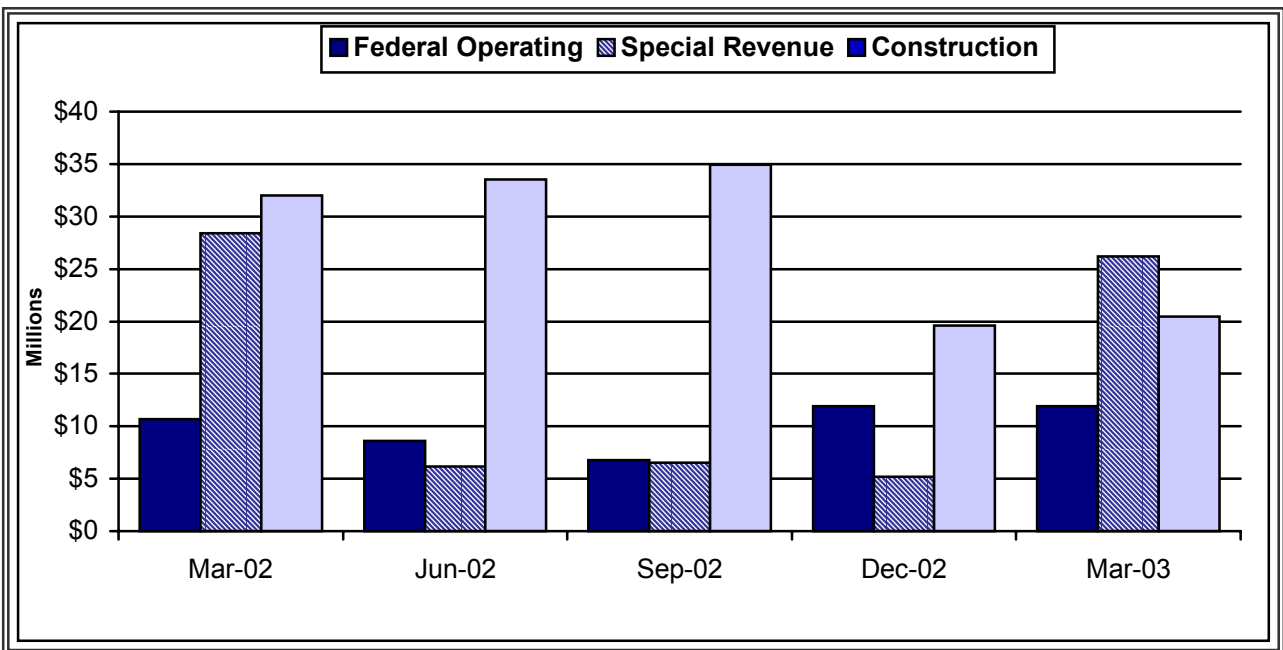


Loans and Advances

Treasury loans may be used to advance funds to a State agency or institution for a designated purpose prior to some form of reimbursement. Working capital advances and lines of credit are other methods for ensuring that an agency or

institution has sufficient operating cash, within its appropriation, prior to collection of revenues. The total of all types of treasury loans and advances as of March 31, 2003, was \$67.0 million.

Treasury Loans
Quarter Ended March 31, 2003



These advances are in the form of temporary loans funded on the basis of the following conditions:

◆ **Anticipation of Federal Operating Funds** supports the operations of federal grants and contract programs for which advance funding has been delayed or for those that require expenditure of funds prior to federal reimbursement.

◆ **Anticipation of Special Revenue Funds** supports the operations of non-general funded activities when collections are spread unevenly throughout the year while expenses require steady funding.

◆ **Construction** supports capital projects in anticipation of the sale of authorized debt or other financing for such projects.

Other types of loans and advances that are not charted include:

◆ **Authorized Appropriation Deficit**, which provides funding, when authorized by the Governor, under emergency conditions as described in §4-3.01 and §4-3.02 of the Appropriation Act. There were no deficit loans outstanding at March 31, 2003.

◆ **Working Capital Advances**, which provide operating funds for nongeneral fund projects when revenues to be used for repayment will not be generated within the twelve months required for anticipation loans.

Significant New Loans/Drawdowns

| | |
|--|---------------------|
| <i>Department of Mental Health, Mental Retardation, and Substance Abuses Services</i> | \$22,000,000 |
|--|---------------------|

New loan issued to provide operating funds while awaiting reimbursement from Medicaid and Medicare.

| | |
|--|---------------------|
| <i>Virginia Commonwealth University</i> | \$13,846,752 |
|--|---------------------|

Loan revision to increase authorization to provide cash prior to the sale of revenue bonds for construction of academic campus housing and parking.

| | |
|--|--------------------|
| <i>Virginia Commonwealth University</i> | \$7,586,702 |
|--|--------------------|

New loan to provide cash prior to the sale of revenue bonds for construction of a central dining facility.

| | |
|---|--------------------|
| <i>Department of Rehabilitative Services</i> | \$4,639,345 |
|---|--------------------|

Drawdown to provide operating funds for programs due to delays in receipt of federal grant funds.

| | |
|--|--------------------|
| <i>Department of General Services</i> | \$1,965,000 |
|--|--------------------|

Total 3rd Quarter drawdown for EVA program expenditures.

| | |
|--|------------------|
| <i>Virginia Museum of Fine Arts</i> | \$666,546 |
|--|------------------|

Drawdown to provide cash to cover construction planning expenses.

Significant Loan Repayments

| | |
|---|-------------|
| <i>Department of Rehabilitative Services</i> | \$4,639,345 |
| Repayment due to receipt of federal grant funds. | |
| <i>Department of General Services</i> | \$1,965,000 |
| Repayment of the outstanding balance of EVA loan. | |



Fixed Asset Accounting and Control System (FAACS)

FAACS is the Commonwealth's fixed asset accounting system. State agencies are required to enter capitalized assets (cost \$5,000 or greater) into FAACS. This system produces reports that help agencies track and generally manage their assets. It also provides financial information for the Comprehensive Annual Financial Report (CAFR) of the Commonwealth.

For the third quarter of FY 2003, the agencies and institutions of the Commonwealth that are central users of FAACS processed 7,618 FAACS transactions. This volume of FAACS transactions represents a 12.4 percent decrease from the prior quarter. Third quarter FY 2003 volume is 3,350 transactions lower than that for the third quarter of FY 2002 (10,968), a decrease of 30.5 percent.

